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PHOTO: ©BART BARTHOLOMEW

Airport-security expert Kevin Coffey counsels business travelers to record portable computers' serial numbers to aid in recovery of the equipment if it is stolen. Theft is just one of several ways that computer crime is victimizing companies. *Cover Story, Page 18.*



PHOTO: ©MARK ANDERSON

Creativity blossoms when Dalit Goobich uses the colorful paints created and marketed by her dad, Joel Goobich. *Making It, Page 78.*

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Editor's Note



PHOTO: ©RICK FRIEDMAN—BLACK STAR

Accountant Debbi-Jo Horton helps clients with the AMT, a complicated levy affecting more taxpayers each year. Taxes, Page 29.

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Each year, the Blue Chip Enterprise Initiative seeks out small companies nationwide that have overcome obstacles at various stages in their development and emerged stronger.

These firms' willingness to relate their experiences provides insightful lessons for other entrepreneurs and offers the businesses the potential to receive high-profile publicity.

The deadline for applications for the 1998 awards has been extended to Nov. 21. Honorees chosen by an independent panel of judges will be selected from each state, after which four national Blue Chip Enterprises will be selected and honored at the U.S. Chamber of Commerce's annual meeting in Washington, D.C.

If your business qualifies for award consideration, call 1-800-FOR-BCEI (1-800-367-2234) to obtain an application. The annual competition is open to any U.S. for-profit company that has been in continuous operation for at least three years and employs five to 400 people.

The application requires describing in 500 words or less the challenges your firm faced, how it overcame them, and how the business is better off today. Taking a few moments to reflect on your company's accomplishments could lead to greater recognition and stature for your firm in the business world.



For a preview of top-of-the-line new cars, see our special report on "The 1998 Luxury Cars," beginning on Page 61.

Mary Y. McElveen

Mary Y. McElveen
Editor



The Blue Chip Enterprise Initiative is sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the morning business-news television program presented by the Chamber.

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Letters

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Kathy Reuter, Kathleen Vetter, Georgia Leigh McDonald

SENIOR ARTIST

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PRODUCTION COORDINATORS

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PRODUCTION ADMINISTRATOR

Seretha Armstrong

ADVERTISING

Pete McCutchen, director

(212) 692-2215

Kathleen Brown, administrator

ADVERTISING MANAGERS

Atlanta (770) 650-1690

Bill Ingram

Chicago (312) 346-3526

Richard Knepler

Dallas (972) 387-0404

Richard Chalkley

Southfield, Mich. (248) 354-1180

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New York (212) 692-2215

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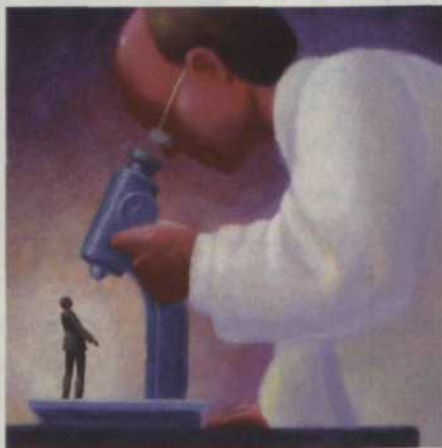
Diane Lewis, creative services coordinator

Screening Job Candidates Saves In The Long Run



The points made in "Ignoring A Résumé Can Prove Costly" [Small Business Financial Adviser, September] are all too true. In addition to the liability risks and training costs lost to employee turnover, losses from fraud and embezzlement can be staggering.

The typical cost of a pre-employment investigation—\$250 to \$500—is a bargain



compared with the expense of hiring a private investigator or forensic accountant to locate and recover money or assets lost to theft, fraud, or embezzlement. Fees for this type of investigation (not including attorneys' fees) typically start at \$2,500 and can quickly escalate.

However, even though some executive-search consultants perform reference checks, they typically earn their fees by placing candidates. Private investigators earn a fee whether the candidate is hired or not, so they might be a better choice for screening prospective employees.

Adam T. Lilienfeld, President
Wellfleet Associates, Inc.
New York City

Utilities Are Proving That Nothing Is Free



There is an issue in utility deregulation that was missed in "The Big Switch," your September cover story. It's an issue that utilities don't want to see the light of day: their movement into private enterprise without fully divesting themselves of their monopolistic advantages.

Utilities are entering into competition with various small businesses, such as electrical, plumbing, appliance, and heating and air-conditioning contractors.

While this is perfectly legal, the problem arises when there is subsidization of the competing business by the utility, which is guaranteed a profit by the state regulatory agency.

A common example is giveaways: A consumer is "given" a water heater or an electric light, including installation. No money changes hands, but the consumer agrees to buy all his electricity from the utility. The consumer thinks he's getting a great deal, the utility wraps up another user, and the independent plumber or electrical contractor loses a sale.

Of course, since nothing is free, the ratepayers bear the cost of the "giveaway" in the form of higher rates.

This is not fair competition.

Ervin Klein, President

C.H. Glanz Sr. Plumbing & Heating, Inc.
Louisville, Ky.

Postal Service: A Chip Off The Old Block?



Regarding "Postal Increases: Smaller Is Better" [October]: The U.S. Postal Service is no better or worse than any other facet of government, from federal down to municipal levels.

What difference does it make whether it's the Postal Service, a Democratic president, a Republican Congress, or any other agency, department, or branch of government that is spending money that is not truly theirs in a manner that usually exceeds budgets and is not subject to accountability?

Leonard Kaufmann, President
Coastal Pippo
Oxnard, Calif.

Former Air Force Base Is Going Places



Nation's Business did entrepreneurs across the country a real service by pointing out the opportunities available at closed military bases ["Closed Bases, Open Doors," September]. One of the most interesting locations was omitted, however—the former Plattsburgh Air Force Base in Plattsburgh, N.Y.

A 5,000-acre "city" with 3 million square feet of building space and world-class aviation facilities, the former base is being marketed by the Plattsburgh Airbase Redevelopment Corp. (PARC).

The Plattsburgh region is in its sixth year as the No. 1 job-growth area in New York state. More than 100 companies ring Plattsburgh, and 12 ventures have gone onto the base, engaging in

everything from aviation-related services to manufacturing.

Bombardier Corp. is building rail cars next door to the base and plans to expand onto the facility. The region is quickly becoming a major hub for transportation-related businesses, both rail and air.

In addition, PARC is establishing an "eco-industrial park" concept for U.S. companies interested in resource recovery and sharing and ISO 14000 certification.

For more information, contact PARC at



The former Plattsburgh (N.Y.) Air Force Base is attracting transportation-related businesses.

426 US Oval, Suite 1000, Plattsburgh, N.Y. 12903; (518) 561-0232.

Garry F. Douglas, President and CEO
Plattsburgh-North Country Chamber
of Commerce
Plattsburgh, N.Y.

Translating The 'Gibberish' Of IRS Audit Guides

I just read "When The IRS Comes To Check" [October], about Internal Revenue Service tax audits and the agency's audit guides, and I found it very interesting and informative.

When I saw that some of the guides can be downloaded from the IRS's site on the Internet's World Wide Web, I decided to try it and perhaps get some information about the auditing process.

So I signed on to the Web and accessed the IRS site, made my way through the pages to get to the guide I wanted, and proceeded to download. Wow! I quickly had it. Now I could get all the information I wanted, right? Wrong. The guides are set up in personal document format (PDF), and until I can download a PDF reader, the material is just gibberish.

Bill Olendorf, Owner/Manager
Point South KOA Kampground
Yemassee, S.C.

[Editor's Note: Acrobat Reader software from Adobe Systems Inc. is needed to read files that are in PDF. The software can be

downloaded free from the Forms and Publications page of the IRS Web site (www.irs.ustreas.gov/forms_pubs/forms.html) or by clicking on the "Get Acrobat Reader" button at the Adobe Systems Inc. Web site, www.adobe.com.]

Getting The Wires Crossed On Photograph Choices



After years of working for an electric utility and correcting my kids when they would identify an electric-power pole as a telephone pole, I looked closely at the photograph accompanying the editor's note on Page 5 of the September issue. The text discusses electricity deregulation; the photograph, however, is of someone working on a telephone pole.

When the October issue arrived, I noticed the article about competition in the telephone business that accompanied "Heeding The Call For Phone Efficiency." Then I checked out the photograph on Pages 38 and 39. Guess what? It shows two men working on an electric-power pole.

No wonder my kids are still confused.
Jim Mangum
Wake Forest, N.C.

[Editor's Note: We did indeed get our wires crossed. Thanks for pointing out the error.]

Corrections

In October's cover story, "The Heat Is On," the location of Paul Belliveau, a small-business consultant and president-elect of the Product Development & Management Association, was incorrect. He is based in Westfield, N.J.

The chart on Page 22 should have indicated that 200 companies were surveyed by the Product Development & Management Association.

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Computer Crime 4859

The era of electronic innocence is over. Firms must protect themselves against losses from computer hackers, thieves, viruses—and employees.

The Heat Is On 4858

Small firms are under increasing pressure to develop better products faster just to remain competitive; here are steps that companies can follow to quicken the pace.

The Big Switch 4857

As deregulation of the electric-power industry gears up, some small-business owners are beginning to see the impact, and others would be well-advised to know what's at stake.

Ties That Bind 4856

Wise small-business people aim for long-term relationships that benefit both buyer and seller.

Pension Power 4855

Small firms now have more ways of creating the kind of retirement plans that work best for them.

Labor's New Assault 4854

Big Labor is back—with aggressive efforts to increase union membership—and the stakes for business are high.

Leadership For The New Age 4853

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Nation'sBusiness
The Small Business Adviser

ENTREPRENEUR'S NOTEBOOK

By Marcy Shoemaker

The Right Twist On A Spinoff

Taking the entrepreneurial leap and spinning off a business from a large company is a lot like leaving home.

On one hand, you're giving up the security of knowing that you're part of a larger organization with administrative and financial resources that a smaller, independent company may not command.

On the other hand, spinning off offers autonomy and the ability to make your own decisions and respond quickly to the changing needs of clients or your industry.

In March, I took the leap and purchased the stock in my marketing-communications company, Criterion Communications, held by Aetna U.S. Healthcare. This gave me full ownership of the company.

The enterprise was formed four years ago as a subsidiary of U.S. Healthcare (which merged with Aetna in 1996) to handle that company's marketing-communications needs. But from the beginning, the operation wanted to reduce its dependency on its largest client.

While Aetna U.S. Healthcare remains our biggest customer, our base of 300 clients and projected 1997 revenues of \$12 million suggested that it was the right time to go out on our own.

Indeed, that is one of the benefits of spinning off a business: You have been able to establish a vital and growing concern under the supportive wing of a larger organization. This nurturing environment gives a business, like a bird leaving the nest, the ability to fly on its own, but it doesn't make going solo any less scary.

Here is what you can do to make life easier when your business spins off:

Acknowledge that change can be difficult. Even though much of how we conduct business remains the same, both administratively and with regard to our clients, our spinoff entailed a big psycho-

logical change for the staff. It's important to recognize that going from a large company to a small one might make employees unusually concerned. The company



PHOTO: GAIL DIMARCO-BLACK STAR

Look before you leap when taking a subsidiary firm out on its own, says Marcy Shoemaker of Criterion Communications.

has to prove itself. Paychecks must arrive on time, benefits similar to those provided by the larger company must be offered, and the business must continue to prosper.

Involve employees. The more knowledge that employees have about the changes that will take place, the more comfortable they will be with those changes. As we prepared to spin off, we formed an employee committee that met weekly and participated in our decision-making process.

Create an entrepreneurial culture. Breaking away from a larger company with many decision-making levels might

allow you to create greater flexibility in your company's approach to a wide range of issues, from when work is accomplished to how it is done. Hire people you believe in, then let them do their jobs with a true entrepreneurial sense of commitment to their product and the company.

Make your move more than just a state of mind. A physical relocation is symbolic of your new freedom and how you want to do business. Use a relocation to re-energize your staff and to get them thinking about how to make your "new" company better.

Don't try to do it all. Rather than creating departments and adding employees, consider contracting with outside service providers to handle the administrative tasks that once were done by your parent company.

Stay true to yourself. Managing a spinoff is much like heading a start-up. Employees need to see a strong, dedicated, and confident leader, and clients need to receive consistent service.

Just as with leaving home, there will be days when you'll wish you had stayed and days when you'll be glad you didn't. If you stay the course, chances are good that the latter will outnumber the former.

18

WHAT I LEARNED

Leaving the nest can be scary, but good management can help a break-away firm fly.

Marcy Shoemaker is CEO of Criterion Communications in King of Prussia, Pa. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



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Dateline: Washington

Business news in brief from the nation's capital.

INTERNATIONAL TRADE

Prospects Remain Uncertain For Fast-Track Trade Bill

As Congress moved toward adjournment of its 1997 session, it remained unclear whether lawmakers would grant President Clinton so-called fast-track authority for trade pacts, which U.S. business sees as an important step toward increasing sales of goods and services abroad.

Trade agreements negotiated when fast-track authority is in effect are subject to an up-or-down vote in Congress but cannot be altered. Treaties not subject to fast-track voting rules can wither if encumbered with special-interest amendments.

Speaking to reporters outside the White House after Clinton unveiled his fast-track proposal in September, Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce, said fast-track authority is important for trade agreements that are "vital to small business and our nation's continued prosperity."

Appearing with Donohue was Aida Alvarez, head of the U.S. Small Business Administration, who said that most U.S. exporters are small firms and that fast-track authority would open foreign markets and help these U.S. businesses create jobs.

Supporters of fast-track authority say other countries won't bargain seriously with the United States unless the policy is in place for fear that Congress will modify any "final" deal, thereby subjecting it to renegotiation. In addition, supporters contend that the U.S. must get back in the trade-deal game quickly because many countries already have signed trade pacts with other nations and those pacts could put the U.S. at a competitive disadvantage.

While most Republicans support the fast-track concept, they object to Clinton's effort to include labor and environmental provisions in the future. They argue that labor and environmental issues should not be part of trade pacts and that those seeking to raise international labor and environmental standards should make their case with the relevant international bodies, the International Labor Organization and the World Trade Organization.

On the other hand, labor unions and environmental groups favor strong provisions obligating trading partners to protect worker rights and promote pro-environ-



PHOTO: ©TERRY ASHE

Following a presidential briefing at the White House, Thomas J. Donohue, president and CEO of the U.S. Chamber, and U.S. Small Business Administrator Aida Alvarez told reporters that fast-track authority for trade pacts is important to small firms.

mental policies. Organized labor is leading the fight against fast-track in media campaigns in the districts of House members whose votes it believes can be changed. The ads invoke the North American Free Trade Agreement, charging that the pact is sending U.S. jobs abroad.

At press time, fast-track bills were ready for floor consideration in both the House

and Senate, although debate had not yet been scheduled in either chamber. The Senate Finance Committee approved its measure Oct. 1; the House Ways and Means Committee approved a similar one Oct. 8. Neither bill allows changes in labor and environmental standards to be part of trade accords considered under fast-track authority.

—James Worsham

REGULATION

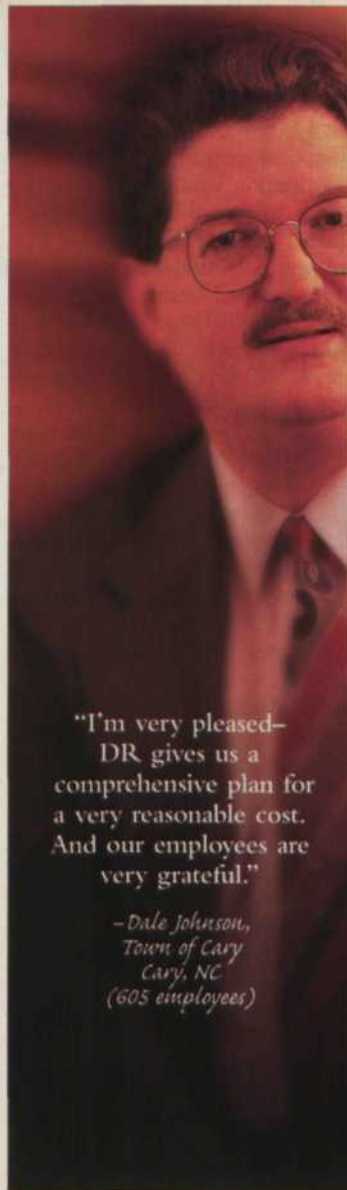
OSHA Rethinks Implementation Of Record-Keeping Proposal

An outpouring of concern by members of Congress, small-business owners, and others has prompted the U.S. Occupational Safety and Health Administration (OSHA) to rethink its proposed changes to a federal regulation governing record keeping on injuries and illnesses.

The regulation requires many businesses to maintain records of workplace injuries

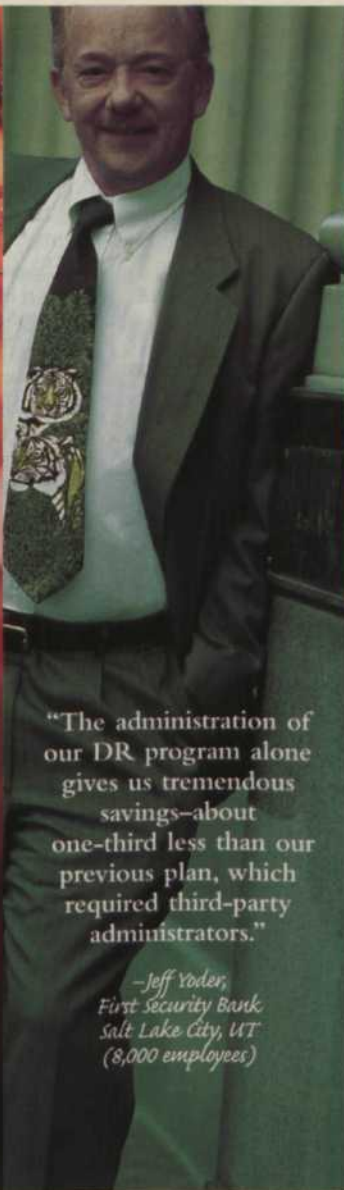
and illnesses for up to four years. OSHA's proposed revision, which the agency says is intended to cover fewer businesses and be less burdensome than the current regulation, tentatively had been slated to take effect as early as Jan. 1. But in the face of criticism that the new version would, in fact, be more inclusive and more burdensome than the current rule, OSHA announced in September that the changes might not take effect until late 1998 or early 1999.

Many aspects of the proposal are in dis-



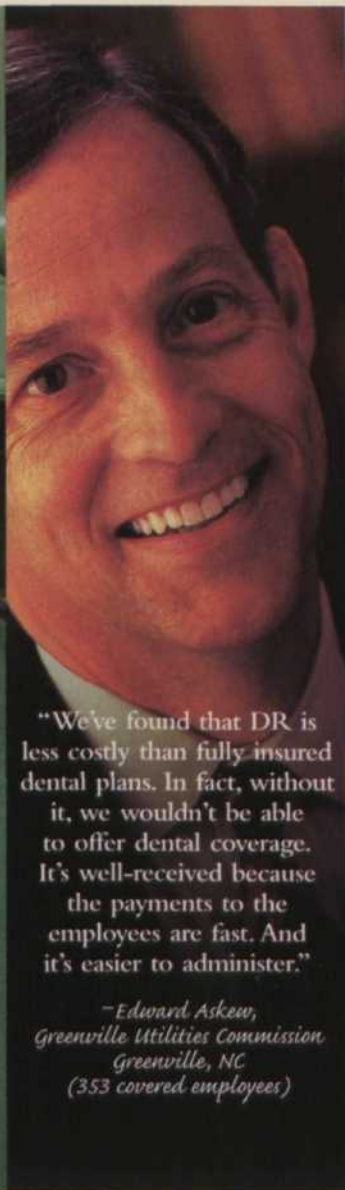
"I'm very pleased—DR gives us a comprehensive plan for a very reasonable cost. And our employees are very grateful."

—Dale Johnson,
Town of Cary
Cary, NC
(605 employees)



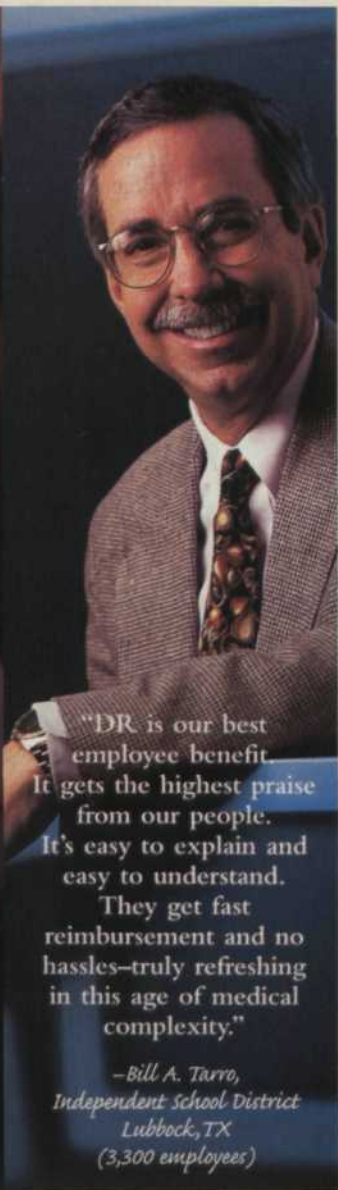
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—Jeff Yoder,
First Security Bank
Salt Lake City, UT
(8,000 employees)



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Circle No. 12 on Reader Service Card

REGULATION

pute. For example, while OSHA says the new rule would affect about 620,000 U.S. businesses, the U.S. Small Business Administration estimates that it would cover about 1.4 million establishments—slightly more than under the current regulation. Other disputes center on how much time and effort small businesses would have to spend complying with the new rule

and on whether opening workers' injury and illness records to public inspection would violate their privacy rights.

"We have gone to great pains to reduce the burden and simplify the forms," Gregory R. Watchman, OSHA's acting director, said at a Sept. 17 hearing of the House Small Business Committee.

The panel's chairman, James M. Talent,

R-Mo., disagreed. "I believe that OSHA has underestimated by a factor of hundreds of thousands the number of small-business establishments which under the proposed regulation would be subject for the first time to record-keeping requirements," Talent said. "I also believe that OSHA has seriously underestimated the burden on these small businesses."

Earlier this year, OSHA said that restaurants, cleaning services, and automotive-supply stores are among the businesses that likely would have to begin maintaining safety records under the rule changes. Doctors' offices, bowling centers, and parking garages are among those that might be exempted based on recent nationwide data showing that such businesses have become relatively safe places to work. In many affected industries, firms with fewer than 20 employees would be exempt.

The regulation covers each location where a business employs people, and it would hit the construction industry particularly hard, according to critics. Companies would be required to report injury and illness statistics for their subcontractors as well as for their own workers.

"This will cause more time behind a desk instead of on the job site promoting safety," said Alan McComb, president of Harold McComb & Son, Inc., a general-contracting firm based in Fort Wayne, Ind.

Lawrence Halprin, an attorney with Keller and Heckman LLP in Washington, said OSHA has failed to justify its proposal to allow fellow employees, former employees, and their lawyers to examine injury and illness records in a worker's personnel file. The provision "would violate the fundamental rights of privacy and due process, which are guaranteed by the Constitution of the United States to both employees and employers," said Halprin.

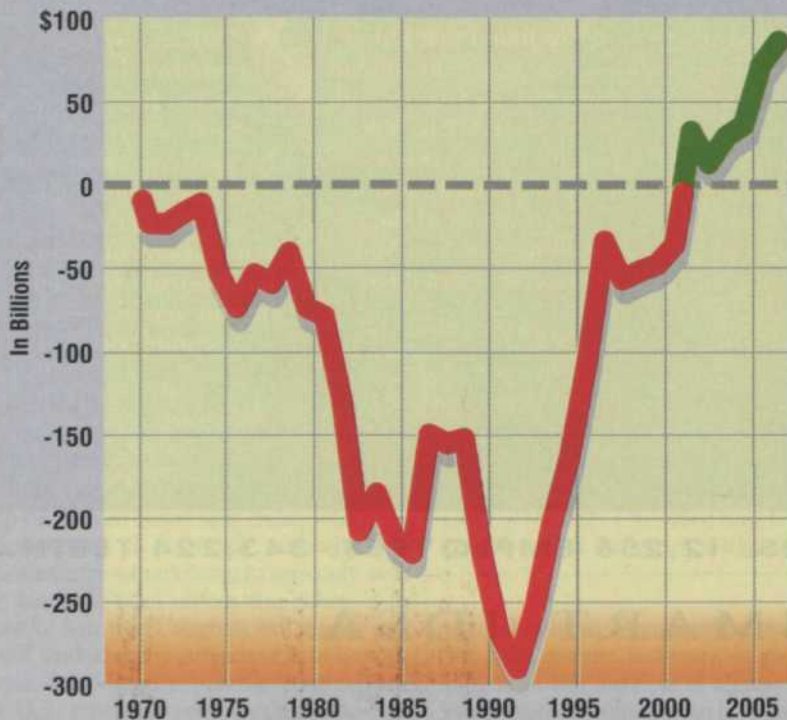
OSHA's Watchman said the regulation would generate statistics that would help small businesses evaluate their safety practices. He added that his agency would offer businesses free computer software to help them comply with the changes.

—Steve Bates

SPENDING AND TAXES

A Growing Budget Surplus

The landmark budget legislation that President Clinton signed into law Aug. 5 was intended to produce a modest surplus in 2002—the first since a \$3.2 billion surplus posted in fiscal 1969. The Congressional Budget Office now estimates that the agreement will produce even better fiscal results: a \$32 billion surplus in 2002 and an \$86 billion surplus in 2007. The higher numbers are based on projections of greater revenue growth from stronger-than-anticipated economic expansion.



SOURCES: U.S. OFFICE OF MANAGEMENT AND BUDGET, 1969 THROUGH 1996; CONGRESSIONAL BUDGET OFFICE, 1997 THROUGH 2007.

HIRING

Agency Testing Ways To Ease Employment-Eligibility Checks

The U.S. Immigration and Naturalization Service (INS) is encouraging employers to participate in pilot employment-eligibility programs slated to begin late this year.

The programs will enable business owners to use electronic means to verify that prospective noncitizen employees are legal immigrants. Currently, employers must check documents such as driver's licenses to determine applicants' citizenship or immigration status during the hiring process.

Under one pilot program, employers will

be able to use telephones or computers to check prospective workers' identification with the INS and the Social Security Administration. This program will be operated in California, Texas, New York, Florida, and Illinois.

In another pilot, available in all states, employers will be able to use driver's licenses and photo identification cards determined by the Justice Department to be sufficiently tamper-proof. Employers will check numbers on the cards against the INS database of legal immigrants. And in still another pilot, under way only in Iowa, businesses will use driver's licenses or iden-

tification cards that can be run through magnetic readers, the way credit cards are cleared. Iowa is the only state that now issues machine-readable driver's licenses.

Businesses interested in participating in one of the programs can obtain an application form by visiting their district INS office; by writing to the Immigration and Naturalization Service, 425 I Street, N.W., Ullico Building, 4th Floor, Washington, D.C. 20536; or by calling (202) 514-2317. Or they can download the form from the agency's World Wide Web site (www.ins.usdoj.gov), print it out, and mail or fax it.

—James Worsham



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Circle No. 19 on Reader Service Card

Managing Your Small Business

Defusing customer complaints; anticipating power problems; tapping overlooked sources of workers.

By Roberta Maynard

CUSTOMER SERVICE

Cooling Down A Short-Term Crisis

When a company finds it has big problems handling a surge of customer calls and complaints, what can it do? Community Cab Co. of Elsmere, Ky., faced that question recently and found the answer as near as its telephone.

Community Cab's troubles began when it agreed to proceed two weeks ahead of schedule with its acquisition of Covington Yellow Cab, which served the Covington, Ky., area and nearby Cincinnati International Airport, located southwest of the city on the Kentucky side of the Ohio River. When Covington Yellow abruptly went out of business, Community merged its 25 taxis with Covington's 35-car fleet right away.

The deal called for Covington Yellow's cabs and routes—but not its drivers—to be transferred to Community Cab. But because the transfer occurred earlier than planned—before Community could train its drivers and new hires on Covington Yellow's routes—Community's customers suddenly were experiencing waiting times of up to two hours.



PHOTO: GUM CALLAWAY

Signs in cabs showing a hot-line number for complaints and questions helped improve the expanded Community Cab Co., says Karen Salmon, director of customer service for the Elsmere, Ky., firm.

"The public had a huge outcry," says Karen Salmon, Community's director of sales, marketing, and customer service. "It was high-stress time, pandemonium."

During the first few days, the company was receiving 900 to 1,200 calls of all types—including requests for service—every 24 hours, up from the usual 400. Though the percentage of complaints was not tracked, the volume was significant, Salmon says. Not only were customers unhappy, she says, but the gripes clogged the

dispatcher's phone and took time away from efforts to build the company's new management system.

Salmon came up with a plan. She set up a separate customer hot line and had signs placed in cabs inviting patrons to call with concerns and questions. Community quickly arranged for the 19-member office staff to attend a weekend course on telephone etiquette.

Salmon received close to 100 calls on the hot line in the weeks immediately following the plan's implementation. As promised, all calls were returned within 12 hours. "Quite frankly, [callers] were surprised

to have a call returned," she says.

As the company's performance improved, the number of complaint calls went down. Now, a year after the merger, the hot line receives about five customer calls per week—some positive, others negative.

"In this era, customer service will make the strong survive," Salmon says. "You can learn from your customers how to improve if you listen to them." —Joshua Robin

The author is a senior at Tufts University.

PREPAREDNESS

Tips For Coping With Power Outages

With the warm Pacific current called El Niño threatening to make this winter's weather less predictable across the United States, small businesses may want to prepare for possible interruptions in their electric-power service.

Northeast Utilities System of Berlin, Conn., a major electricity provider in New England, has experience with severe winter weather and offers these tips for small businesses:

- If the electricity goes out, turn off major machinery and computers to avoid big draws of power when electricity is re-

stored. When power returns, turn on machinery and computers one at a time.

- Make sure your computers' files are backed up and that the machines have surge protectors to ensure against damage when power returns.

- Have a plan to sell your products or services without having to rely on electrical equipment such as cash registers.

- Make cash deposits at your bank frequently so you won't have much cash around during a power outage.

- Find out if your equipment can take a minor reduction or increase in voltage that can occur as a result of a power problem. Most machines can withstand a fluctuation of plus or minus 10 percent. ■

ENTERPRISE

Small-Business Deadline

The deadline for applications for the 1998 Blue Chip Enterprise Initiative, which honors small firms that have overcome challenges and emerged stronger, has been extended to Nov. 21. The annual competition is sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-news television program. For information and an application form, call 1-800-FOR-BCEI (1-800-367-2234).

HIRING

Reliable Sources
Of New Employees

Finding reliable workers is a continuing problem for small and medium-sized businesses in parts of the country where unemployment levels are low. Yet even in the Milwaukee suburb of West Allis—where the unemployment rate is under 3 percent—one company has had good luck filling gaps in its employee roster by tapping two sometimes-overlooked sources: the welfare rolls and the disabled.

The company, C.D. Baird Co., Inc., designs and manufactures advertising displays for use in stores. Since 1992, Baird has hired 20 disabled workers, and since 1995 it has employed about 30 former welfare recipients.

The firm says it plans to continue hiring such individuals.

Patti Price, Baird's personnel director, found the workers through programs operated by local and state economic-development agencies. She discovered that such programs—typically funded by grants and offered to companies without charge—help match job seekers and positions available.

For small firms with limited resources, she says, an important program feature is the training and continuing support that



PHOTO: GREGORY NICAISTRO

At advertising-display maker C.D. Baird Co. in Wisconsin, the firm's human-resources director, Patti Price, left, finds reliable workers through state and local programs that match the disabled and welfare recipients with jobs; with her, from left, are Michael Spenner, who is autistic, and former welfare recipients Kathy Bergant and Phyllis Rogers.

it offers workers to prepare them for the transition to employment.

"Wisconsin fully realizes that many of these people have no work history. You can't assume that they know the basic workplace conventions, such as attendance and when to take breaks," says Price.

Helping workers learn how to function in the workplace is a primary issue facing businesses that are taking more people from so-called alternative labor pools, says Laura Owens-Johnson, a co-director

tions of clubs and professional organizations.

■ Encourage referrals from employees, friends, outplacement firms, vendors, customers, and professional-service providers. Create incentives to boost their participation and promote the employee-search program actively.

■ Host an event. When filling several positions, says Fyock, an open house or a job fair can be an effective means of creating a pool of interested candidates. ■

of Creative Employment Opportunities, an employment firm in Milwaukee. She cites ethnic-group members, homemakers returning to the work force, and the elderly as those moving in greater numbers into the job market.

Among the best sources of labor are local or state programs, particularly those that provide training.

Other approaches include these suggested by Cathy Fyock, president of Innovative Management Concepts, an employment-related consulting firm in Louisville, Ky.

■ Place newspaper ads in sections such as sports, television, and food rather than only in the help-wanted classifieds.

■ Advertise your openings in small community newspapers, church newsletters, and publica-

FACILITIES MAINTENANCE

Don't Let Asphalt
Let You Down

What's the condition of your parking lot? An asphalt parking lot should hold up for as long as 25 years, but many deteriorate in as few as 10 years because they're not properly maintained, according to Alan Rose, a 30-year paving veteran and president of Rose Paving and Sealcoating Co. in South Holland, Ill.

Effective maintenance of asphalt areas requires that they be checked every two years, Rose says. Cracks should be filled—even in winter—with a rubberized material to keep them from becoming potholes. Depressions that become puddles of standing water after a rain are potholes in the making, Rose says.

Asphalt should be coated with a sealant every three years, he advises. This seals hairline cracks, helps to prevent the asphalt from drying out, and provides protection from decay caused by oil leaked by automobiles.

If an area is properly maintained and the foundation is sound, resurfacing should be needed only every 15 to 25 years, depending on climate and use, Rose says.

Asphalt's biggest enemies are the sun (which can cause evaporation of asphalt's cohesive properties), water, and the pressure of heavy vehicles.

Rose recommends this year-round schedule for asphalt maintenance:

■ November-December: Solicit bids for work next season. Doing this can avoid new-year price increases.

■ January-February: Repair potholes and large cracks as they occur.

■ March-April: Solicit bids—if you have not done so already—for asphalt and concrete repair, seal-coating, and lot marking.

■ April-May: Asphalt plants open. Choose a contractor and schedule work.

■ June-August: All phases of maintenance can be done, weather permitting.

■ September-October: Schedule any remaining work. ■

NB TIP

Baldrige Award Examiners

The administrators of the federal government's Malcolm Baldrige National Quality Award are seeking experts in small business to serve as examiners.

The annual award program, which is run by the Commerce Department's National Institute of Standards and Technology, recognizes as many as two companies in each of three categories—manufacturing, service, and small business—for their quality achievements.

The late Malcolm Baldrige was secretary of commerce during the Reagan administration.

Examiners volunteer their time to evaluate applications for the award, provide feedback to applicants, visit applicant companies, and recommend award winners. Serving as an examiner affords the opportunity to observe how some high-performing small firms do their work. Examiner applications will be available Nov. 10; call (301) 975-2036. ■



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Solutions for a small planet™

Computer Crime

By Tim McCollum

The attack was swift and precise—the stuff of a Hollywood suspense film.

Early in 1995, hackers used the Internet to invade the small network of computers operated by an unsuspecting and seemingly unlikely victim, Net Daemons Associates Inc. (NDA), based in Woburn, Mass.

The five-year-old company helps firms manage their computer networks and uses its own network to facilitate Internet and other communications among its employees and clients.

The hackers who invaded the company installed a program on NDA's network that enabled them to record users' passwords and to roam the network freely.

The invaders stashed files containing identification codes for cellular phones, gathered sensitive information on NDA and its business customers, and then launched similar attacks on those companies and other firms.

Jennifer Lawton, NDA's chief executive, says she learned of the unlawful activity only when her Internet-service provider called to inform her of the attack. She immediately began scouring her network for signs of intrusion.

Within 48 hours, Lawton, Chris Caldwell, the firm's co-founder, and their technicians uncovered how the NDA system had been compromised, and they ini-



PHOTO: GREGORY HOWARD

Technical skills enabled Jennifer Lawton and Chris Caldwell to stop attacks on their firm's computer network in only 48 hours. Similar attacks have reduced other small firms to mere memories.

tiated action to prevent further damage, including the installation of software to prevent the hackers from logging on to the network again.

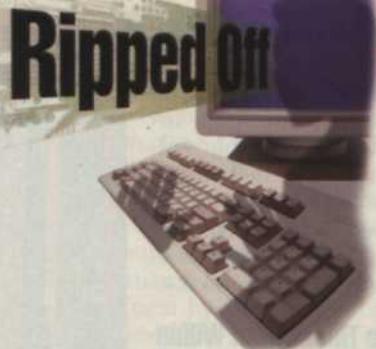
Then NDA called in the Computer Emergency Response Team at Carnegie Mellon University in Pittsburgh, which helps companies investigate computer-security incidents. Technicians at NDA worked with the response team, the U.S. Secret Service, and several Internet-service providers to trace the hackers' path across the Internet based on a usage profile pieced together from NDA's network-access logs.

By following this electronic trail, the Secret Service was able to collar a ring of suspects. They were convicted of using networks connected to Internet sites to hide and exchange pilfered cell-phone codes.

"They were kind of like Hansel and Gretel," Lawton says of the hackers. "They left lots of crumbs for us to follow."

Attacks such as the one at NDA are not expected to happen to network-savvy companies such as Lawton's. She says she knew the importance of protecting NDA's network and the risks involved if she did not. Nonetheless, as the head of a small firm, she didn't want to pay the \$20,000 or so that it would have cost for the hardware and software that might have staved off the attack.

The era of electronic innocence is over. Firms must protect themselves against losses from computer hackers, thieves, and viruses—and employees.



"It was a relatively new time for the Internet," Lawton says. "So there still was a sense that you may not need protection if you're small and people don't know who you are."

But the age of electronic innocence is long past. In fact, the NDA incident provides chilling evidence that any company—regardless of its size or computer savvy—can be a victim of high-tech crime.

Companies increasingly are falling prey to hackers, computer thieves, software viruses, and, in particular, unauthorized and often illegal activities by their own employees. In fact, chances are that sooner or later most companies will become victims of high-tech crime.

Early this year the FBI commissioned a nationwide survey of U.S. companies of all sizes on the subject of computer security. The survey was conducted for the FBI by the Computer Security Institute (CSI), a security-research organization in San Francisco.

Among the survey's findings:

■ Seventy-five percent of the 563 companies that responded said they had been victimized by computer-related crime in the preceding year.

■ Fifty-nine percent of the victimized companies could place a dollar figure on their losses; the average per company was \$401,600.

■ Forty-nine percent of the respondents reported unauthorized use of their computer systems.

The problematic nature of unauthorized computer use by employees and intruders alike is confirmed by another survey, of 1,225 subscribers to *Infosecurity News*, a computer-security newsletter published in Framingham,

Mass. The survey was conducted this year by Wilton, Conn.-based accounting and management consulting firm Deloitte & Touche. It found that security risks are increasing even though companies are taking greater steps to protect themselves.

Charney, chief of the U.S. Justice Department's section on computer crime and intellectual property.

Worse still, says Charney, many companies are reluctant to report computer crimes to the police, fearing damage to their reputation and loss of business if customers, investors, and competitors find out about a security breach. As a result, he says, police rarely catch high-tech criminals, and cases with a happy ending like NDA's are rare.

"Small businesses that become heavily reliant on computers will have the same problem that large businesses have" with computer crimes, says Charney. "To the extent that some of their information is [commercially] valuable, they also [face] serious risk" that it could be stolen.

In fact, Charney and other experts note that when computer criminals strike, small-business victims can suffer relatively more than large corporations, whose bottom lines are more resistant to damage from any single theft of equipment or information.

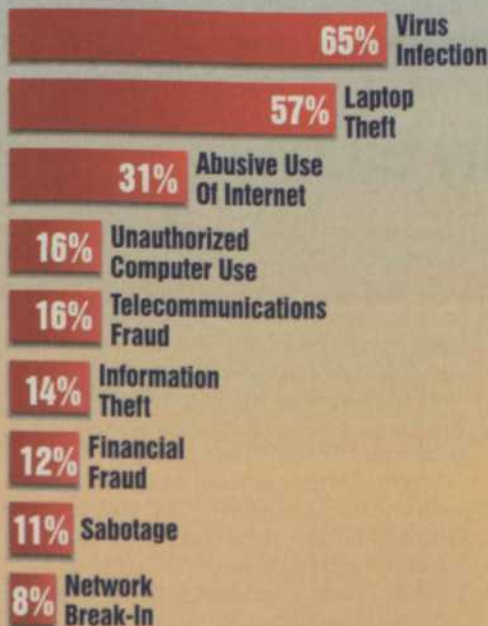
Regardless of a company's size, it will find that deterring high-tech crime can be a daunting challenge. Experts in such crime have concluded that technological safeguards can, at best, only

make it harder for wrongdoers to strike. "Technology cannot provide a complete security system," says Patrice Rapalus, CSI's executive director. The bad guys simply have too many faces, both inside and outside a company, she says.

Technology is not the whole solution, though, says Rapalus. "It also involves effectively managing people. And it's about managing your data. It's about protecting your business."

Pathways To Crime

Companies reporting financial losses attributable to specific types of high-tech criminal activity and other factors in 1996-97.



SOURCE: COMPUTER SECURITY INSTITUTE SURVEY FOR THE FBI

Safeware, a computer-insurance firm in Columbus, Ohio, estimates that in 1996, U.S. businesses lost \$1.4 billion to thefts of computers alone.

Yet such hardware thefts represent the bulk of only one kind of computer crime—the kind that companies ultimately discover. In many instances, companies are never aware that they are victims because the stolen information is never missed, says Scott

COVER STORY

In short, deterring criminal activity involves assessing vulnerability, instituting the best protections possible, and formulating plans for responding if criminals strike.

The Threat From Within

One unsettling fact about computer crime is that the greatest threat to information security in small firms has proved to be their employees, says Ron Hale, a criminologist and senior manager of computer-insurance services with Deloitte & Touche. A company's employees typically have access to its personal computers and computer networks, and often they know precisely what business information is valuable and where to find it.

For distressing proof, look no further than MC²—pronounced "MC Squared"—



PHOTO: SEAN BARTHOLOMEW

Security expert Kevin Coffey warns that criminals can easily snatch portable computers at security checkpoints, check-in desks, baggage-claim carousels, and other airport locations.

a network consulting firm in Warren, N.J.

MC² couldn't have been more vulnerable to wrongdoing than it was in January 1996, when its building's roof

of incoming and outgoing electronic mail as well as interoffice communications.

The engineer forwarded confidential correspondence about MC²'s projects and

caved in under the weight of an East Coast blizzard. The collapse forced the company to operate from a smaller, hastily rigged location while its headquarters building was being cleaned and repaired.

While working in that less-secure environment, in which the firm's network-server computers couldn't be locked in a separate room, an MC² engineer devised a way to connect his home computer to the company's network via modem.

He then left the company, but he continued to use his modem connection to log on to the MC² network, diverting to his apartment copies

High-Tech Security Guards

New technologies have created new types of high-tech crimes and criminals. As a result, preventive measures have become much more complex.

Entrepreneurs used to be able to secure their businesses using only strong locks, guards, and alarm systems. No longer.

High-tech crooks now can invade companies via telephone lines with technologies that are foreign to many business people. Such technologies include so-called war dialers, which automatically dial phone numbers in search of modems; password sniffers, which record incoming user passwords; random-number generators, or password crackers, which guess passwords; and software viruses that can wreak havoc on computer systems.

Often, small companies don't know they have been victimized until it's too late. "Some attacks are harder to detect than others," says Patrice Rapalus, executive director of the Computer Security Institute, a security-research organization in San Francisco. "If a company doesn't have a good security system in

place, it may not know that it's been compromised."

Several tools are available to help companies protect themselves against computer crime. Yet experts say companies shouldn't rely on any one security solution. Instead, they should put together a combination of products that work together and fit their security needs.

"You need to find tools that will provide end-to-end security," says Kathy Kincaid, I/T Security Program director for IBM Corp. in Somers, N.Y. "You need to guard your applications, your systems, and your networks. And then you must manage the security."

Hitting The Wall

The first line of defense for many firms is a so-called firewall—software that is installed on a computer positioned between a company's computer network and its connection to the outside world.

Firewalls are programmed to decide who can access the network and what information they can view. Firewalls are highly effective but can cost more than \$20,000. The high price explains

why many small firms are tempted to do without them. New, lower-cost firewall software is coming on the market, however, to serve the many small companies that are connecting their networks to the Internet.

One low-cost option is The Wall, a firewall product from Raptor Systems Inc., a Waltham, Mass., security-software company. This \$995 firewall comes preconfigured to block all inbound access to a company's network, which helps protect against intruders. It also prevents legitimate remote access by employees, however. The Wall does allow for controlled employee access to the Internet's World Wide Web, electronic mail, file transfers, and Internet newsgroups.

Another company working on similar lower-cost products is J. River Inc. in Minneapolis. Its firewall for small businesses, called ICE.Block, retails for \$1,495. It gives companies control over user access and network services, and it is designed to protect against hackers and network attacks. It is made for network servers that run the UNIX operating system, although it supports Windows-based PCs.

But firewalls often are not config-

personnel matters to his friends still employed by the company. Worse yet, he sent sensitive customer information to a friend employed by an MC² competitor, which subsequently managed to win over some of the firm's clients.

Three months elapsed before MC² executives learned that confidential messages were being circulated within the business, says Paul G. Lewis, MC²'s president and CEO. An audit of the company's network-usage patterns revealed a nightly modem connection from someone with full network-access privileges.

Lewis reported the break-ins to the computer-crimes unit of the New Jersey State Police, which traced the incoming modem calls to a phone number billed to the former MC² employee.

After gathering evidence for several months, police arrested the man, who pleaded guilty to computer fraud. It was his first offense, and he was fined and ordered to perform community service. "The individual who concocted this was just a young kid," says Lewis. "I was surprised because I always thought he was a loyal employee."

Lewis says the break-

ins cost MC² more than \$1 million in business. Moreover, the company lost several valuable employees who were upset about electronic mail containing negative comments about them.

(For having dealt successfully with its challenges after the blizzard, MC² was named a Blue Chip Enterprise this year. The Blue Chip program is an annual competition co-sponsored by Massachusetts Mutual Life Insurance Co., also known as MassMutual—The Blue Chip Company; the U.S. Chamber of Commerce; *Nation's Business*; and "First Business," the Chamber's syndicated morning business-news television show.)

Security experts say that when information is stolen from a company, often the culprit is a seemingly loyal employee. Employees may steal data because of dissatisfaction with salary, promotion opportunities, or working conditions; conflict with managers; financial problems linked to alco-

"The crooks are looking for an easy target, so if you make yourself a hard one, they'll move on to someone else."

—Security Consultant
Kevin Coffey

hol or drug use; or a need to pay for costly medical treatment for a spouse or child.

Deloitte & Touche's Hale says that most computer-crime perpetrators misuse authority given to them by their employers and that such crime is a problem particularly in small companies, where employees often have little direct supervision.

Employees can do a lot of damage, says Ira

Winkler, director of technology for the National Computer Security Association (NCSA), a security research and consulting firm in Carlisle, Pa. He cites the case of a former engineer at Intel Corp. who attempted to sell copies of designs of the company's Pentium processor to agents of foreign governments upon leaving Intel's payroll.

Another example, says Winkler, is the theft at Levi Strauss & Co. of a computer disk containing personnel information; company officials suspect it had to be an inside job.

What can a company do to prevent em-

ured properly to stop intruders. "I've seen firewalls that were nothing more than expensive routers [devices that route traffic between networks] because [the companies] had the security features turned off," says

Ira Winkler of the National Computer Security Association in Carlisle, Pa.

Even the more expensive firewalls aren't impenetrable. Winkler notes that hackers are always looking for vulnerabilities in firewalls, and when they find one they often share it with others over the Internet. Thus, a would-be hacker who knows the kind of firewall a company is using probably can find a method for breaching it posted on the Internet.

Taking A Look

Security-scanning software such as The Internet Scanner from Internet Security Systems Inc. in Atlanta tests a company's network to find its weak spots so they can be shored up. The software provides the digital equivalent of patrolling your building and



checking its locks.

User-authentication systems, another form of computer-crime deterrent, go beyond the normal user IDs and passwords to keep intruders from gaining access to a network.

SecureID, from Security Dynamics Technologies Inc. in Bedford, Mass., allows companies to issue one-time passwords to employees using an electronic token. When users log in to the network, they type their user ID and password, followed by the secret code displayed on the token. The token contains a chip that is programmed to generate a new secret code for the user automatically every 60 seconds; the user code matches one generated by the network server.

The next step in computer security is to monitor and control what users do after gaining access to a network. Network operating systems such as Microsoft Windows NT and Novell IntranetWare, along with many network-based applications, let companies issue different levels of clearance to different

users. Companies thereby can restrict access to specific applications and types or locations of data.

By using more-specialized network-monitoring programs, such as Purview Internet Manager from On Technology Corp. in Cambridge, Mass., and Net Access Manager from Sequel Technology Corp. in Bellevue, Wash., a small firm can monitor what users do on both the local computer network and over the Internet; firms also can limit users' access and compile reports on users' behavior patterns.

Preventive Medicine

Among the most potentially damaging high-technology threats that companies have to defend themselves against are computer viruses. All incoming files and programs should be scanned for viruses using an up-to-date antivirus program, and all individual computers should be equipped with a virus scanner as well.

Among the most popular antiviruses are VirusShield and NetShield from McAfee Associates Inc. in Santa Clara, Calif.; The Norton Antivirus from Symantec Corp. in Cupertino, Calif.; and InterScan VirusWall and ScanMail from Trend Micro Inc. in Cupertino.

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ployee crimes such as these? The first step, says Winkler, is to know which people have the most opportunity to do damage. The most likely suspects, he says, are employees who arrive at work early in the morning and leave late at night.

Winkler says company owners should be aware of their employees' schedules and find out what they're doing if they linger beyond normal business hours.

In addition, companies should set their networks to monitor activity in—and restrict access to—sensitive files, and they should strip employee PCs of nonessential modems that could be used wrongfully to transmit information. "These are basic, common-sense issues," says Winkler.

Other common-sense safeguards, he says, include imposing password requirements, which can help keep unauthorized users out of computer systems. Further, he advises, because employees often write down their passwords and keep them near their computers—where others can easily find them—employees should be instructed to memorize their passwords and be prohibited from telling them to others.

Hale adds that security is also a matter of knowing people. Companies should perform background checks on job candidates, especially those applying for positions with access to sensitive company information.

Managers should also be aware of changes in their employees' moods, personal situations, and behavior patterns, which may signal dissatisfaction with the company.

Intruders From The Outside

CSI officials, having reviewed data collected in the computer-security survey, say that high-tech attacks by outsiders—though still fewer than those by insiders—are on the rise.

The perceived increase, CSI's Rapalus believes, stems from the growth in the number of companies whose networks are connected to the Internet or that have installed modems on their networks that enable employ-

ees to access the networks from afar.

"A smaller business may be less at risk from someone gaining access" to its network, Rapalus says, but managers still need to be aware of the external computers and networks to which their company is connected. These connections "can be used as a launching pad for attacks," she says.

That was the break-in method used by the hackers who victimized NDA. CEO Lawton estimates that the incidents

curity faults. The UNIX operating system that is found on most Internet server computers was designed to be "open," thereby enabling the servers to communicate with far-flung networks of other types.

It's that openness that makes UNIX-based systems easy to attack, Fancher says. He notes that Microsoft's Windows NT operating system, which powers many other Internet servers, has similar vulnerabilities.

"If people really knew the extent to which the Internet is Swiss cheese, they would freak out," Fancher says.

As with employee crime, the best protections against attacks by outsiders are matters of common sense, say security experts. Companies can buy a technological barricade called a firewall and position it between their internal networks and external ones, but hackers often can get in anyway because the firewall hardware and software are poorly configured or are not activated.

One way to avoid these problems is to pay outside experts to carry out these complex configuration and installation chores.

The NCSA's Winkler notes that most hackers break in to a company using information they have gained during phone calls to unsuspecting employees. He recom-

mends adoption of policies that prohibit employees from giving out sensitive company information over the phone without a supervisor's approval.

Winkler says other tools often used by thieves include software programs known as "war dialers." The programs enable the hackers to scan particular telephone exchanges for modem lines and then attempt to break in once they are connected to one of the lines.

Simple defenses against outside attacks, such as passwords, often can be broken easily because employees choose common words or names as their passwords.

Deloitte & Touche's Hale recalls how once, to prove a point, he broke in to more than 100 of his Chicago clients' computers by modem or over the Internet by using the password "Bulls," the name of the city's world-champion basketball team.

He says hackers also have an array of



PHOTO: GUY AROBOLIK—BLACK STAR

Computer-network consultant Paul G. Lewis remains unhappy that his firm, MC², lost valuable employees after confidential electronic mail was circulated by a former employee who gained access to the firm's computer network.

probably went on for several months before they were discovered.

She says the situation put her company in the difficult and potentially damaging position of defending itself against accusations that NDA was attacking other firms, even as it informed its clients about what had happened and tried to find and fix the cracks in its security barriers.

"It was embarrassing and uncomfortable," says Lawton.

Former hacker Bruce Fancher, now president of Evolution Online Systems Inc., a software-development firm in New York City, says today's computer intruders regularly scour electronic bulletin boards, newsgroups, and mailing lists, exchange electronic mail, and pore over trade and hacker magazines to learn the vulnerabilities of computer systems.

He says the Internet is riddled with se-

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break-in tools such as "cracker" software programs, which guess passwords based on words and numbers, and "sniffer" programs, which are installed at a modem or at the gateway between a company's network and the Internet to record the passwords of people logging on to the network.

Disappearing Hardware

Theft of hardware—specifically desktop and notebook computers—is the most common type of computer crime, according to the CSI study.

Notebooks are especially attractive targets, accounting for 64 percent of stolen computers, according to computer-insurance firm Safeware, which estimates that thefts of notebooks alone increased 27 percent in 1996.

Thieves typically prey on business travelers, snatching their portable computers in airports or hotels when the victims aren't looking.

The most common crime locations, says airport-security expert Kevin Coffey, are ticket counters, check-in desks, security checkpoints, skycap stands, baggage-claim carousels, and pay phones.

Coffey, who owns Corporate Travel Safety, a consulting firm in Canoga Park, Calif., is also a sergeant with the Los Angeles Police Department. He founded the LAPD's airport-crime unit.

Coffey warns that professional computer thieves often work in teams and blend in with travelers. They usually succeed in their crimes, he says, because victims seldom report stolen notebooks to the police. Those who do report such thefts rarely know the serial numbers of the pilfered machines, which makes them hard to trace and identify.

To have a better chance of recovering stolen notebooks, victims should alert police immediately and provide complete descriptions of the

missing computers, including serial numbers.

The best protection for travelers, Coffey says, is to be extremely sensitive to the potential for theft, to carry serial numbers separate from the equipment, and to tape a business card to the bottom of each computer.

Other tools for preventing PC thefts include locks, alarms, and tracing soft-

Think Forward: Back Up

With computers, trouble is always a possibility.

Hard disks fail, networks crash, files get corrupted, programs become infected with viruses, and natural forces such as lightning cause disruptions—often at the worst times. Even when businesses take precautions, bad things can happen.

"You never expect it," says Paul Lewis of MC² (pronounced MC-Squared) about events such as the blizzard that severely damaged his company's office and prevented him from accessing the company's computers and data files.

"These are the things that you read about. They happen to other people, but you never think they can happen to you."

Technological disasters can be devastating to a small company. Chances are that the data on a firm's computer or network include crucial information about customers, finances, personnel, and suppliers that is nearly impossible to re-create.

Consequently, small companies would be wise to abide by a mantra recited often by computer technicians and network administrators: "Back up, back up, back up." Following this advice may be the most important safeguard against loss of your business information.

"The bottom line is money," says Hilton H. Augustine Jr., chairman and CEO of GMSI, a network-systems company in Bethesda, Md. "If you don't back up your network and you have a crash, you lose money. The more mission-critical the data, the more the impact from the loss."

Backing up data means copying it. If files are lost or damaged, they can be replaced with the copy. Data are usually backed up each night to a tape drive or other device using software that automates the process. It's important to keep the backup off-site, where it won't be damaged along with the original if disaster strikes.

Lewis says MC² has been keeping backup tapes off-site since the blizzard, and the company recently began backing up data to a remote file server via a network.

Network consultants, telecommunications companies, and third-party services such as Connected Corp. in Framingham, Mass., and IBM Corp. in Somers, N.Y., can also back up a company's data to one of

their servers via a modem connection, dedicated line, or the Internet.

If the worst happens and you lose important business data, all may not be lost. If

the loss is a result of a relatively minor glitch, the data often can be recovered using the diagnostic software built into Microsoft Windows 95 or a stand-alone program such as The

Norton Utilities from Symantec Corp. in Cupertino, Calif., or Nuts & Bolts from Helix Software Co. in Long Island City, N.Y.

If it's more than a minor software or hardware problem, you may have to turn to a data-recovery service such as DriveSavers Inc. in Novato, Calif., or Ontrack Data International Inc. in Eden Prairie, Minn. Such firms can recover much or all of the data lost to viruses, file corruption, hardware failures, and software problems.

To recover the data, companies usually must ship their hard disks to the recovery service, which then diagnoses the problem and tries to fix it.

In some areas, local consultants can send a technician to the business site to analyze and fix a problem.

Recently, Ontrack introduced free software called Data Advisor that diagnoses hard-disk failures at a company's site and determines whether the data can be recovered.

Later this year, Ontrack's technicians will be able to fix the hard disks remotely via modem using a suite of sophisticated tools.



Damage caused by software viruses is an immediate threat to small companies. No firm is immune.



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ware, which sends signals to a tracking service by modem when a stolen computer is connected to a phone line.

"The crooks are looking for an easy target," says Coffey, "so if you make yourself a hard one, they'll move on to someone else."

Coffey adds that making yourself a hard target is also key to preventing computer thefts from an office.

As with thefts of data, Winkler says, computer thefts from offices often are inside jobs committed by employees, security guards, or cleaning and maintenance crews. These workers frequently

Develop A Company Policy

Firewalls, security scanners, antivirus software, and other types of security technology aren't enough to prevent high-tech crime. Real prevention begins by formulating a company security policy that details—among other matters—what information is valuable and how to protect it.

"A lot of companies don't have a policy in place," says Patrice Rapalus of the Computer Security Institute in San

Francisco. "It's still an area where there needs to be a lot of awareness. Companies don't believe it's a problem."

A good security policy shouldn't be just a list of stringent rules imposed upon employees, according to Ira Winkler of the National Computer

Security Association in Carlisle, Pa. In his book, *Corporate Espionage* (Prima Publishing, \$26), Winkler recommends that employees be involved in establishing the policy because they can suggest areas where the company is vulnerable based on their on-the-job experience.

Besides setting rules for users, the policy should spell out managers' responsibilities. Computer-security experts and product vendors recommend that a company's policy include the following items:

What Computer-System Managers Must Do

- ✓ Monitor employees' use of PCs, computer networks, and the Internet. Inform employees that monitoring will occur.
- ✓ Classify information based on its importance, and assign security clear-

ances to employees based on their need for access to the data.

✓ Record serial numbers of technology equipment such as personal computers, notebook computers, and printers.

✓ Limit visitors' access to the facility.

✓ Assign a person whom service providers can call if they discover unusual computer or telephone-call activity that suggests a break-in during evenings or on weekends.

✓ Periodically assess the vulnerability of computers and networks and of security devices such as alarms and locks.

✓ Keep up with new security vulnerabilities by consulting sources such as the Computer Emergency Response Team at Carnegie Mellon University (www.cert.org), the National Computer Security Association (www.ncsa.com), and the SANS Institute (www.sans.org).

✓ Remove modems from individual PCs and cut down on the number of modem lines that go out of the building.

What Employees' Supervisors Must Do

✓ Assign passwords to employees and instruct them to keep them confidential. Employees should not reveal passwords to others or write them down where they could be found.

✓ Instruct employees not to give out sensitive information over the telephone. Employees should verify a request for information with a supervisor if they are unsure about the sensitivity.

✓ Install password-protected screen savers that prevent people from seeing what is displayed when the user has stepped away from the computer.

✓ Have employees log off the network and shut down their PCs at the end of the day or when they go to lunch.

✓ Don't allow employees to install their own software on PCs.

✓ Require employees to encrypt sensitive files that they send via the Internet.

Security Breaches

Companies' responses when asked if their computer systems had been used without authorization.

	1996	1997
Yes	42%	49%
No	37	33
Don't Know	21	19

SOURCE: COMPUTER SECURITY INSTITUTE SURVEY FOR THE FBI

know where computers are kept and how to get to them, he says.

More-brazen thieves break into companies in retail locations or office parks by smashing doors or windows, gathering up PCs, and making their escape before police can respond to burglar alarms.

No matter who does the stealing, the pilfered PCs usually are taken apart and sold as parts, say law-enforcement officials. These parts, as well as intact stolen notebooks and peripheral equipment, often are sold to pawnshops or are peddled at computer swap meets, where people sell new and used computer hardware and software.

Hank Kaminski, a dealer in used computers and owner of the Computer Renaissance franchise in Madison, Wis., says it's hard for dealers to tell stolen goods from legitimate items. Over the past two years, he has helped police nab several computer thieves.

In one case last year, Kaminski became suspicious when a student from the nearby University of Wisconsin came into his store several times trying to sell new memory chips. Later, the student returned to sell Kaminski a new notebook computer, even daring him to have "his police friends" trace it.

Kaminski did just that. He also called the local American TV consumer-electronics store, which sells PCs.

Indeed, the computer was missing from American TV, whose security videotapes subsequently revealed two security guards taking items from the store. Police arrested the student when he returned to Computer Renaissance to pick up his payment for the computer. They later apprehended the guards from whom the student had obtained the computer.

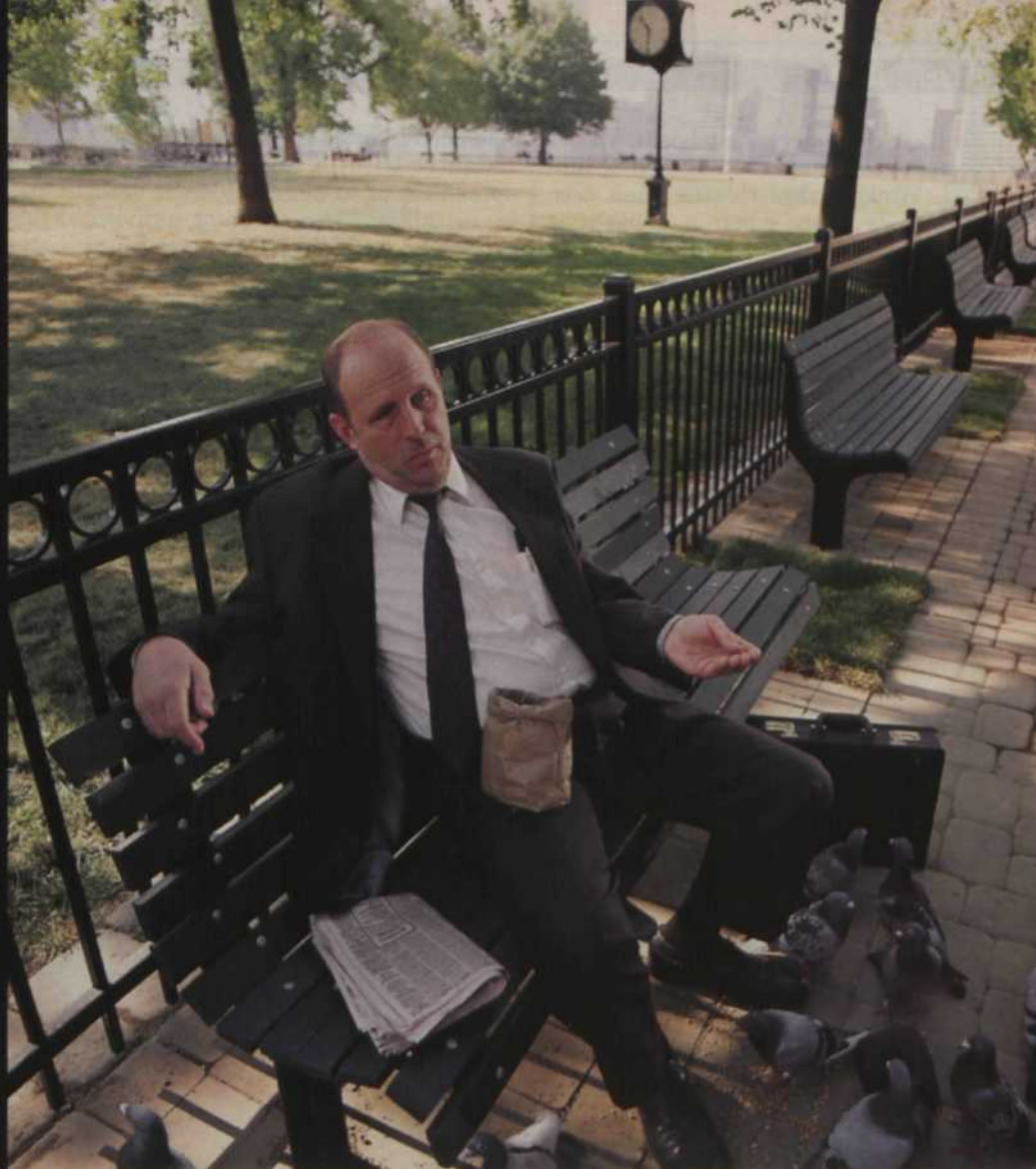
"What makes me suspicious is when somebody wants the money right away and doesn't want me to test the equipment," says Kaminski. "We test every-

thing before we buy it. And we ask why they want to sell it. And if we get more than one story, we question it."

Stopping office thefts of computers is no different from preventing other office break-ins, says Winkler, who suggests that companies begin their prevention efforts by keeping an equipment inventory.

Businesses should also lock computers and monitors to desks, store PCs and peripherals that aren't in use in locked rooms, and purchase insurance

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for their computers, he advises. Visitor access to company offices should be limited. Winkler says thieves often case businesses to see where equipment is kept.

Another deterrent is to attach electronic tags to computers so that removal of equipment from company premises is detected automatically, says Peter N. Bennett, president and CEO of AIT Corp., a security-equipment firm in Ottawa, Ontario. "This technology is really very basic, and the prices are coming down rapidly," he says. The tags, which cost as little as \$3 apiece when purchased in bulk quantities, emit radio-frequency signals that either set off an alarm or activate a video camera.

The Viral Menace

Next to computer theft, damage caused by software viruses is the most immediate threat to small businesses. The NCSA estimates that 67 percent of U.S. companies had equipment affected by viruses last year.

Viruses are contained in software programs and infect stand-alone computers and networks. Most are the malicious—or at least mischievous—creations of technically advanced computer users, and they can destroy documents and files, crash hard drives, and render PCs inoperable.

The NCSA estimates that there were more than 16,000 computer viruses as of September, and it says the number is increasing daily.

Four years ago, software developer Calibre Systems Inc. in Falls Church, Va., caught a particularly serious virus—the Satan Bug—which rapidly spread to most of the computers attached to its network. The virus destroyed program files everywhere it went.

Brandt Adams, Calibre's director of integrated information systems, says the virus probably came in through a diskette obtained from one of the firm's clients, many of whom contract with the U.S. Defense Department. Adams notes that computers at the Pentagon

had been infected by the same virus.

Calibre tried to stop the virus from spreading, or to at least slow it down, by installing three different antivirus programs on each infected computer. But the Satan Bug struck back, attacking one of the antivirus programs as it was being loaded.

The company ultimately had to hire a

Viruses are becoming a greater problem as more companies connect to the Internet, according to the NCSA. In addition to being embedded in programs downloaded from the Internet, viruses are occurring in a new form called "macro viruses," which often spread through word-processing and spreadsheet documents attached to e-mail messages.

Stopping viruses requires vigilance. Bishop says the first defense is to install and regularly use software that scans PCs and computer networks for viruses and destroys them upon detection.

In addition, this software should be set to scan all incoming files from diskettes, modems, CD-ROMs, the Internet, and tape drives.

Antivirus programs must be updated at least monthly to fight the hundreds of new viruses that emerge each year.

An equally important deterrent

is to prohibit employees from putting programs on their office PCs without company approval, so that someone in the business can ensure that the programs are scanned for viruses before they can do damage.

No company is immune from viruses and other high-tech threats. Jennifer Lawton of NDA discovered the hard way that no company—not even a company in the computer business—can afford not to have a strong defense. She says she has found that "it can be expensive if you don't think about security upfront."

Yet, as Lawton also discovered, protecting one's business from these threats isn't much different from deterring other types of crime. Security experts say it requires planning, constant vigilance, and, above all, common sense.

Cybercrooks are out there. Don't let your company be their next victim. **■**



PHOTO: EKHVIS ERICKSON

Used-computer dealer Hank Kaminski says it's hard to tell if items are stolen, which makes it tough to apprehend computer thieves.

security-software firm, Norman Data Defense Systems Inc. in Fairfax, Va., to write a program to neutralize the virus.

"Virus protection was kind of catch as catch can" at Calibre before the incident, says Adams. The company lacked a policy that required scanning incoming diskettes using antivirus software that detects and destroys viruses. "There's a lot of risk if you don't have a good policy and, more importantly, enforce it."

Viruses often embed themselves in computer programs and spread when people copy the programs from diskettes or a network hard drive or when they download them from the Internet, says Matt Bishop, an associate professor of computer science at the University of California, Davis, and a consultant with the SANS Institute, a security research and education association.

Viruses are primed to inflict damage on specific days and at specific times, or under certain conditions, or when someone installs or runs an application. They can replicate themselves on a system, and so, says Bishop, "if you delete the original program, the virus will still run."



To order a reprint of this story, see Page 71. For a fax copy, see Page 7.



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TAXES

An Arcane Levy Extends Its Reach

By Joan Pryde

Unlike most small-business owners, Debbi-Jo Horton is intimately familiar with the alternative minimum tax, a complex levy designed to ensure that the wealthiest individuals and profitable companies do not escape taxes altogether. As a certified public accountant, Horton has to tell her clients whether they must pay the AMT. And they'd rather not hear about the details.

"Most people don't understand it," says Horton, owner of D.J. Horton & Associates, a two-person accounting firm in East Providence, R.I. "It's such a complicated calculation that to try to even explain it takes hours. Most people say, 'You lost me after five minutes.'"

Most small-business owners haven't had to worry about the AMT, but more and more of them will find that they must.

Congress created the AMT in its current form in 1986, setting aside an earlier minimum-tax law that was regarded as much weaker and was not preventing some high-income taxpayers from reducing their tax liability to zero. The current AMT is designed to keep very wealthy individuals and corporations from using exotic tax shelters and hefty deductions to avoid paying a fair share of income tax.

But because Congress has not adjusted key AMT provisions for inflation, each year more individuals who do not consider themselves wealthy are finding they must calculate—and often pay—the AMT. The number of taxpayers subject to the AMT will jump from 600,000 this year to more than 6 million by 2006, according to Kenneth J. Kies, chief of staff of Congress' Joint Committee on Taxation.

Says Mark Watson, a director in the Dallas financial-planning office of the international accounting and consulting firm



PHOTO: GREGG FRIEDMAN—BLACK STAR

Tax accountant Debbi-Jo Horton of East Providence, R.I., says the alternative minimum tax is "a complicated calculation" understood by few. Each year, increasing numbers of taxpayers, including many small-business owners, find they are subject to the tax.

KPMG Peat Marwick: "You'll see more and more people having to pay the AMT" even though their basic tax situation doesn't change.

To ease record-keeping burdens on small corporations, Congress added a provision to the tax law enacted Aug. 5 that exempts businesses with less than \$5 million in annual revenues from the corporate AMT. But no such break was added for individuals, including sole proprietors and partners, who report their business income on their personal income-tax forms.

How The AMT Works

Here's how the AMT applies to individuals, including sole proprietors and partners:

If normally you sharply reduce your taxable income by using a number of tax breaks, such as passive losses on an investment or interest on certain types of tax-exempt bonds, you figure your taxable income two ways. First, you calculate your

Each year more people must calculate—and often pay—a tax that they never imagined would snare them.

regular taxable income on Form 1040, using all available deductions. Then, to calculate your income for AMT purposes, you add back many of those deductions. You then compute the tax on your AMT income and compare that with the tax on your regular taxable income, and you pay the higher of the two taxes.

The AMT tax rates are 26 percent for incomes up to \$175,000 after an exemption and 28 percent for incomes above that figure. The amount exempt from the AMT is \$33,000 for an individual taxpayer, including sole proprietors and partners; for a married couple filing jointly, it is \$45,000.

The five regular income-tax rates for individuals range from 15 percent to 39.6 percent.

The AMT's exemption levels were designed to shield most taxpayers from having to pay the AMT or even go through the rigors of calculating whether they are subject to it. But the AMT exemption thresh-

TAXES

olds have remained unchanged since 1986, while ordinary tax deductions and the personal exemption have risen because of inflation. As a result, taxpayers in middle-income groups will increasingly find their AMT tax getting closer to their regular tax and ultimately exceeding it.

The fact that many people of relatively modest income will become subject to the AMT is troubling, says Kies.

The Center on Budget and Policy Priorities in Washington, D.C., estimates that at least some of those taxpayers are going to be in the 15 percent tax bracket, which in today's dollars could include a family of four with an annual gross income of nearly \$60,000, or a single-parent family making close to \$50,000 a year.

The 6 million that Kies says could be covered by 2006 would still represent a small percentage of the total number of individual income-tax returns filed, which for the 1996 tax year topped 100 million.

Nonetheless, tax experts say, the number will be large enough to net many unsuspecting taxpayers who have never heard of the AMT. It also will mean that many more individual taxpayers—including sole proprietors and partners—will at least have to do the AMT calculations even if it turns out that they don't have to pay the tax.

Nullifying The Deductions

How does a typical taxpayer with no unusual tax breaks deal with the AMT? Although the deductions for mortgage interest and charitable contributions are permitted in calculating AMT income, almost no other ordinary deductions can be applied.

The tax code lumps those deductions together with more-exotic tax breaks and calls them all AMT "preference items." Any such items that a taxpayer has used to calculate ordinary taxable income must be added back to calculate AMT income. In addition, AMT income cannot be reduced by the \$2,550 personal exemption that each taxpayer and dependent is permitted on a regular return.

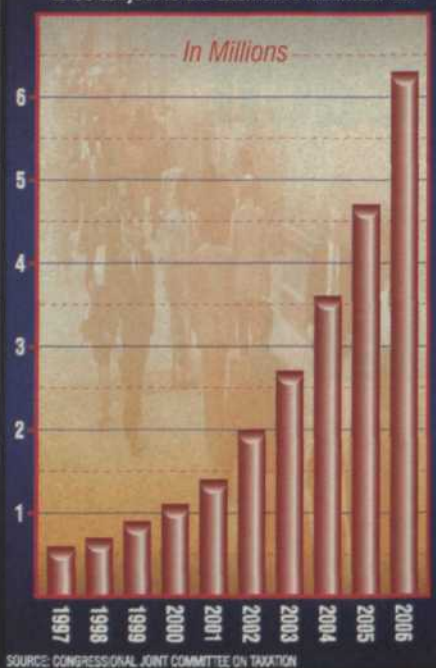
Deductions that cannot be used in calculating AMT income include those for medical expenses, interest on a home-equity loan, and—most important for many individuals—state and local taxes.

The deduction for income and property taxes paid to states and localities is one that nearly all itemizers take, and it can be a hefty tax break for people in high-tax states such as New York and California. Those taxpayers, the experts say, are the ones most likely to lose when it comes to calculating the AMT.

The inability to deduct such taxes in calculating AMT income highlights "the real

A Burgeoning Tax Roll

Projected number of individual taxpayers to be subject to the alternative minimum tax



SOURCE: CONGRESSIONAL JOINT COMMITTEE ON TAXATION

CHART: GEORGIA LEIGH MCDONALD

Figuring Your AMT Vulnerability

For most people, there is no income threshold or simple test that lets them know beforehand if they are subject to paying—or even subject to calculating—the alternative minimum tax, according to tax experts.

Even the Internal Revenue Service acknowledges as much. Under the heading "Who Must File" in its AMT instructions, the only guidance the IRS gives is to complete Form 6251—the form for calculating the AMT—"to see if the AMT applies to you" for a given tax year.

About the only guarantee is that if your annual income is less than the AMT exemption amount—\$33,000 for single taxpayers and \$45,000 for married couples filing jointly—you don't have to worry, says Susan Jacksack, a small-business analyst for CCH Business Owners Toolkit, an online information source for small-business owners.

Anyone who has income above those amounts "should do at least a very basic AMT calculation," says Jacksack. She recommends using a tax software program to crunch the numbers if you don't want to figure the AMT yourself. Various tax programs will run the calculation for you and print out Form 6251 if you owe the AMT.

problem" of the AMT, says Abram Serotta, president of an Atlanta accounting firm, Serotta Maddocks Evans & Co. Compared with the so-called exotic deductions, he says, "I don't consider state and local taxes to be a preference item."

Moreover, as increasing numbers of average taxpayers find they have to grapple with the AMT, they'll find the task daunting, says Paul Hense, an accountant in Grand Rapids, Mich. He says that while the AMT is simple in concept, the form for calculating it is "incomprehensible. If it weren't for the computer, I don't think the AMT would be possible."

Fortunately, most AMT calculations can be done quickly and easily with computerized tax-filing software, which typically can take the numbers you've entered for figuring your regular tax liability and calculate whether you owe the AMT instead.

Congressional Consideration

To hold the line on the number of individual taxpayers and business owners having to calculate and pay the AMT, Congress could allow deductions of items such as state and local taxes in calculating AMT income, or it could simply index the AMT exemption amounts for inflation.

Congress considered—but ultimately dropped from the tax law enacted in August—a proposal that would have raised the AMT exemption amount incrementally over 10 years. It would have been a step in the right direction, say many tax experts.

But the proposal was deleted from the bill because it was deemed too expensive; the Joint Committee on Taxation estimated that the provision would have reduced federal revenues by more than \$10 billion over 10 years.

Congress did take actions, however, that inadvertently made the AMT law worse, according to some tax experts who have studied the new law's fine print. They say that at least two of the tax breaks included in the law will increase the chances that some taxpayers whom the AMT was not designed to affect will end up being subject to the tax.

Both actions pertain to dependent children. For each child under age 17, the new law permits an annual tax credit of \$400 in 1998 and \$500 annually thereafter. It also provides a tuition tax credit of \$1,500 per child for each of the first two years of college. The credits are phased out for taxpayers according to their filing and income status.

(The child credit is reduced by \$50 for each \$1,000 above \$110,000 of adjusted gross income for married couples filing jointly, above \$75,000 for individuals and heads of households, and above \$55,000 for married taxpayers filing separately. The tu-

ition tax credit is phased out gradually between \$40,000 and \$50,000 of adjusted gross income for individual filers and between \$80,000 and \$100,000 for joint filers.)

Both credits come right off your ordinary tax liability, but the law does not allow the credits in calculating the AMT.



PHOTO: T. MICHAEL KEZA

AMT-avoidance planning works mainly for those with complicated tax situations, says Washington-based Ernst & Young tax specialist Rick Grafmeyer.

"As middle-income taxpayers receive those credits [against their regular tax liability], they're going to look like wealthy people" when AMT calculations are done, says Rick Grafmeyer, director of tax legislative liaison for accounting firm Ernst & Young in Washington.

Capital Gains

The capital-gains tax cuts in the measure enacted in August may have AMT implications for taxpayers who live in states with high tax rates and who realize large capital gains.

The new law includes a provision that permits the long-term capital gains of those who pay the AMT to be taxed at the same new rates that apply to those paying the regular income tax. Those rates currently are 20 percent or 10 percent, depending on your tax bracket, for assets held at least 18 months.

But tax accountants point out that residents of high-tax states who would pay

hefty state taxes on a big capital gain will run into trouble when they take that big state-tax deduction on their following year's federal tax return and find they cannot take it against their AMT income as well.

Possible Solutions?

One of the most important things taxpayers can do to avoid being subject to the AMT is to understand that normal tax strategies, such as deferring income, don't work with the AMT, says David Bounce, senior manager with American Express Tax and Business Services in Westlake Village, Calif.

"AMT planning is almost the reverse of regular tax planning," he says. Bounce recommends projecting what your tax situation will be over the next couple of years; if it appears you may have to pay the AMT, he says, you could realize income more quickly, for example, or defer tax breaks to minimize your AMT liability.

But Grafmeyer says that kind of planning works only for people with relatively complicated tax situations. He notes that taxpayers who are likely to be caught up in the AMT in the coming years are those who have no aggressive tax shelters and have only average deductions that don't change much from year to year. "For the normal person," Grafmeyer says, "there's not much you can do except learn to live with it."

Will Congress revisit the issue in 1998? Tax analysts and lobbyists have said lawmakers are unlikely to want to reconsider a provision with such a high price tag. Yet House Ways and Means Committee Chairman Bill Archer, R-Texas, said in September that he still wants to see something done about the problem. He said President Clinton should get the ball rolling by adding a provision on the AMT to the federal budget he will send Congress early next year.

Although Rhode Island accountant Horton has not had to pay the alternative minimum tax so far, she acknowledges that she might become one of the millions who will find themselves subject to it. She says she has been too busy in recent years keeping up with tax-law changes—and advising clients on them—to focus on her own situation. "You know, the plumber's plumbing is always leaking," she says.

"I would rather not base my practice on just doing taxes, but on helping people plan their financial future," Horton adds.

Unless Congress takes action to ease the AMT problem, though, crunching more numbers is exactly what she will be doing. And many other small-business owners will be doing the same, or paying their accountants to do it for them. **NB**

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MANAGING

Take Care To Avoid Liability Traps

By Anthony J. Mohr

One of the most important reasons that business owners choose to operate their companies as corporations is to protect themselves against personal liability for business debts and court judgments. Most owners who incorporate believe that their homes, bank accounts, and other personal assets are safe; in practice, however, incorporating does not confer automatic protection.

If the principals do not incorporate properly or if they commingle business and personal assets, they risk personal exposure.

Shareholders and directors also may be held liable if they intended to defraud creditors or if "there is no real attempt to respect the corporate enterprise," says Joseph Fleischman, a Roseland, N.J., lawyer who has dealt with such issues.

Even directors who were not personally involved in questionable company decisions are not immune from liability. If a director knew or should have known about questionable dealings, his or her personal wealth may be at risk.

No single fact determines when a court will, metaphorically, "pierce the corporate veil" and hold owners and directors personally liable. The fundamental question is whether the corporate shield is being used to protect someone engaged in fraud or other wrongdoing.

In attempting to answer that question, most judges refer to more than two dozen factors that indicate various kinds of inappropriate activity. No one factor automatically exposes principals to liability, but as the number of infractions mounts, so do the chances that a court will determine personal liability.

Among the most critical factors:

Failing to capitalize a business or to capitalize it sufficiently.

This issue is so important that owners risk personal liability even if it is the only factor a court finds. The ultimate test is whether there are enough corporate assets

to satisfy corporate obligations.

For example, despite learning that a new publishing business would require an initial capital outlay of \$10,000, a San Francisco man and his partner contributed only \$500 to start Bay Area Publishing Co. The business incurred costs of \$650 to \$1,000 a week.

Even though the partners loaned more money to the business, a California court found them personally liable for the firm's printing bills after it ran into financial trouble.

Contrast that with a Minnesota company, Fleming Sheet Metal, whose start-up capital was \$5,000. The company never paid dividends. Earnings were channeled into operating capital. The firm's sole shareholder, Robert J. Fleming, lent additional capital to the business.

After the company became insolvent, the court refused to hold Fleming personally responsible for company debts because the "total equity [stated capital plus shareholder loans plus retained earnings] kept pace with corporate liabilities until the drastic losses began."

Commingling assets.

A common form of carelessness involves intermingling personal and corporate funds. Explains Fleischman: "If money is

Business misconduct can expose owners, shareholders, and directors to personal liability for debts and court judgments.

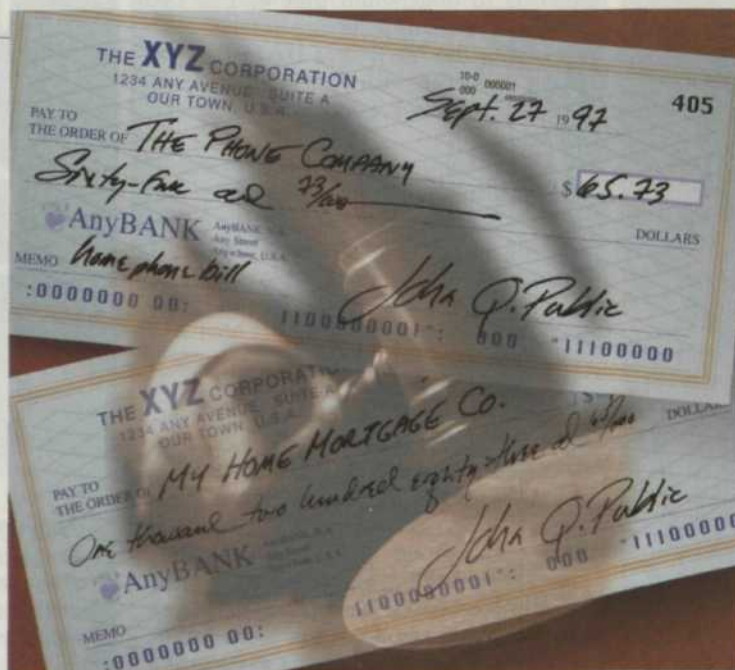


ILLUSTRATION: © GEORGIA LEIGH MC DONALD

moving back and forth for loans and advances, then someone will try to pierce [the corporate veil]."

For example, Dorothy Lee owned two California corporations, Sequoia Enterprises Inc. and Fresno-Pacific Corp. She used them to conduct her lumber business in Fresno and Merced. Sequoia transferred to Fresno-Pacific Corp. accounts receivable and payable, equipment, and a building on leased land. Fresno-Pacific assumed Sequoia's liabilities; the trouble was, the debts exceeded Fresno-Pacific's cash on hand.

In addition, Fresno-Pacific moved its office equipment to Lee's residence. Sequoia owned the residence, but

Lee paid no rent to live there. Meanwhile, Lee wrote a \$1,200 check from Fresno-Pacific to satisfy a debt of yet another one of her companies.

A California appellate court upheld a finding that Fresno-Pacific and owner Lee were indistinguishable from each other and held Lee liable for the company's debts.

Failure to document transactions.

In 1992, two Georgia doctors and a business manager set up Total Care Inc. and two other corporations to handle their medical and chiropractic practice. Because they "transferred money back and forth between [their separate businesses] as needed, without any documentation," the principals were liable for Total Care's business debts, the Georgia Court of Appeals ruled.

Diverting corporate assets for personal use.

The president of a Los Angeles boatyard frequently bought groceries on his way home from work. He paid with corporate checks because he never carried much cash. When a customer sued the boatyard, the fact that the president had used corporate money for his own purposes was among the reasons that a judgment was issued against him personally.

Atlanta lawyer Jack Millkey notes that

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MANAGING

many owners use company money to pay personal debts such as phone bills. "That's where you get into trouble," he says.

Absence of corporate records.

Kurt Schmalz, a lawyer in Beverly Hills, Calif., says carelessness about records such as minutes of director and shareholder meetings leads courts to treat the corporation as the "alter ego" of the owner or owners, meaning there's insufficient separation between owner and company. Hence, owners can be held liable for corporate debts.

Representations by a shareholder that he or she is personally liable for the corporation's debts.

After incorporating Otto Sales Co., Inc., a northern California firm, Walter E. Otto Sr. did not get rid of his old stationery. He wrote his salesman on the outdated, personal letterhead. The only form of contract Otto gave the salesman was on the old stationery with the personal heading "W.E. Otto." Thus, although Otto had incorporated, he was held personally liable for the salesman's commissions.

Using a corporation as a conduit through which another company or an individual conducts business.

In Massachusetts, the Pepsi-Cola Metropolitan Bottling Co. sued Checkers Inc., a wholesale distributor that had become insolvent, for breach of contract. Pepsi-Cola also named Checkers' principals, Randolph and Patricia White, and two other corporations owned by the Whites.

The U.S. Court of Appeals for the 1st Circuit found that Checkers and the other

two corporations were under common ownership and control, that the Whites used their funds interchangeably, and that all three corporations were used for the personal benefit of the Whites.

Evidence existed that Randolph White "failed to observe corporate formalities, siphoned funds, kept no records, and used [the corporations] for his own personal transactions," the court said.

Patricia White was liable because of her "direct participation in the affairs of the corporate defendants, her disregard of their separate personalities, and her personal use of them with little or no regard for their separate existence."

Avoiding "alter ego" liability is easy. Says David Pasternak, president of the Los Angeles County Bar Association: "Prepare minutes of annual shareholder and board of directors meetings; issue stock; don't commingle funds; and don't use corporate assets for personal obligations. You can have a company car and use it for personal business, but don't make your mortgage payments out of the corporate bank account."

Corporate kits that walk you through the steps of corporate maintenance are available at bookstores and local bar associations. Consulting or service firms can make sure you meet corporate-maintenance deadlines, hold required meetings, record all the required minutes, and file re-

ports with state agencies in a timely fashion. Even if you are the sole owner, hold a "meeting" with yourself and write down what you decide. Beverly Hills lawyer Schmalz adds that if you can't keep good records, "find a business lawyer you trust. They are not that expensive."

"Don't make your mortgage payments out of the corporate bank account."

—Attorney David Pasternak

Many entrepreneurs might think that attending to the details of maintaining a proper corporate structure is a waste of time. It isn't.

Take the example of La Mesa Industries, Inc., which owed a vendor more than \$100,000. The creditor tried to make the largest shareholder pay but could not "pierce the corporate veil" because the company had not ignored proper procedures: It

issued stock properly, held regular board meetings, and never commingled its funds. The claim was settled on terms favorable to La Mesa; the owner's personal assets were not touched.

As Robert Barrows, a Minneapolis lawyer and expert in the field, explains, paying attention to the rules does count when it comes to maintaining the corporate shield against personal liability. Says Barrows: "This is one area of the law where form really is more important than substance." ■

Anthony J. Mohr is a judge of the Los Angeles Municipal Court. The views expressed are his and not necessarily those of the court.

Events That Can Trigger Liability

Here are some of the most common reasons a court may find owners, shareholders, or directors personally liable for corporate obligations:

- Insufficient capitalization for purposes of the corporation's business.
- Insolvency of the corporation at the time of the transaction in question.
- Failure to hold meetings of the board of directors or to sign written consents in lieu of holding such meetings.
- Failure to hold shareholder meetings or to sign written consents in lieu of holding such meetings.
- Failure to prepare minutes of board and shareholder meetings.
- Absence of corporate records.
- Failure to issue stock in the company.
- Failure to maintain a share-certificate book.

- Statements by an individual that he or she is personally liable for the company's debts.
- Telling third parties that the business is conducted individually or as a partnership.
- Concealing or misrepresenting the identity of the corporation's ownership.
- Transferring to a corporation the existing liabilities of another entity.
- Failure to prepare or follow corporate bylaws.
- Failure to file annual reports or statements with the appropriate state agency (usually the secretary of state).
- Failure to secure directors' approval for expenditures for major capital items, long-term leases, salaries, bonuses, and compensation plans.
- Intermingling the corporation's assets

with shareholders' personal assets.

- Failure to file separate corporate income-tax returns.
- Failure to document loans to shareholders with promissory notes (preferably secured).
- Diverting corporate funds or assets to personal use.
- An individual's treatment of corporate assets as his or her own.
- Use by two or more companies of the same office or business location.
- The employment by two or more companies of the same employees and the same attorney.
- Using the corporation as a mere shell, instrumentality, or conduit for the business of an individual or another corporation.
- Manipulation of assets and liabilities between entities so as to concentrate the assets in one and the liabilities in another.
- Use of a corporation as a subterfuge for illegal transactions.

Small Business Financial Adviser

The bull market's third-quarter report card; a close look at annuities; rave reviews for a SIMPLE plan.

Investors Continue To Pile Up Profits

By Randy Myers

It's not supposed to be this easy.

Investors skipped through the third quarter plucking profits from the stock market like schoolgirls plucking dandelions from a spring meadow. And the carpet of gold still seems to stretch out before them.

"I'm still finding attractive things to buy," says Steve Hayward, manager of the Marshall Mid-Cap Growth Fund and co-manager of the Marshall Small-Cap Growth Fund. "Our area of the market [small and midsize companies] has as many opportunities now as it did a few months back."

It takes a very short memory to fail to appreciate how truly remarkable those comments are. Since 1926, small-company stocks have posted average annual gains of 12.6 percent, according to Ibbotson Associates, a Chicago-based research firm. But since the end of 1994, small stocks, while slightly trailing big-company issues, have nonetheless been on a tear.

Mutual funds that invest in small companies posted gains averaging 32.2 percent in 1995, 20 percent in 1996, and 9 percent in the first half of this year, according to Lipper Analytical Services in Summit, N.J. To notch a sizable advance yet again in the third quarter of this year—the average small-company fund tracked by Lipper earned 16.6 percent in the quarter, resulting in a 27 percent gain so far this year—and still offer bargains to professional investors such as Hayward, indicates a

Performance By Mutual Fund Category

With Dividends Reinvested Through Sept. 30

Type Of Fund	3rd Quarter	One Year	Five Years*
(Figures are percentages)			
General Stock Funds			
Capital-appreciation funds	13.05	27.47	18.44
Growth funds	10.62	33.50	18.97
Midsize-company funds	14.51	26.88	19.64
Small-company funds	16.55	29.79	21.32
Micro-company funds	24.25	38.93	19.64
Growth and income funds	9.04	35.76	18.76
S&P 500 Index objective funds	7.33	39.65	20.25
Equity income funds	8.53	34.15	17.56
General Stock Funds Average	11.82	32.59	19.21
Sector Stock Funds			
Health/biotechnology funds	9.58	26.00	19.90
Natural-resources funds	14.90	27.53	17.41
Environmental funds	11.76	22.93	11.69
Science and technology funds	19.16	35.69	29.86
Specialty/miscellaneous funds	9.62	25.90	18.89
Utility funds	5.55	22.76	11.73
Financial-services funds	12.81	49.97	27.39
Real-estate funds	13.60	41.34	15.78
Telecommunications funds	10.43	31.41	18.23
Sector Stock Funds Average	11.66	31.10	19.65
International Stock Funds			
Gold-oriented funds	1.33	-21.60	6.12
China-region funds	-3.33	25.24	9.49
Global funds	5.32	24.63	15.70
Global small-company funds	5.22	15.27	17.63
International funds	1.20	18.59	13.96
International small-company funds	-0.09	15.83	13.57
European-region funds	6.41	28.48	17.13
Pacific funds, excluding Japan	-11.82	-6.58	9.70
Pacific-region funds	-12.17	-5.99	9.29
Emerging-markets funds	-2.57	19.02	12.13
Japanese funds	-11.72	-9.40	2.25
Latin American funds	5.47	46.24	15.03
Canadian funds	11.80	10.41	12.73
International Stock Funds Average	0.03	15.83	13.18
All Stock Funds Average	8.67	27.95	18.17
Mixed Equity Funds			
Flexible portfolio funds	6.76	23.82	13.85
Global flexible portfolio funds	5.26	21.22	12.91
Balanced funds	6.69	24.03	13.79
Balanced-target maturity funds	6.48	17.36	10.03
Convertible-securities funds	8.48	24.03	14.29
Income funds	6.02	19.61	13.20
Mixed Equity Funds Average	6.62	23.21	13.62

SOURCE: LIPPER ANALYTICAL SERVICES INC.

*Average annual change for five years

remarkable bull market indeed.

"You've got the best of all possible worlds," says William O'Connor, a colleague of Hayward's who manages the Marshall Large-Cap Growth & Income Fund. "You've got a reasonably strong economy, pretty benign interest rates, and no signs of inflation. It's a pretty good environment for stocks."

Large-Company Performance

As good as small-company stocks have been over the past three years, large-company stocks have been even better.

Funds that seek to match the return of the Standard & Poor's 500-stock index, which is dominated by large companies, earned an average of 36.8 percent in 1995, 22.4 percent in 1996, and 20.3 percent in the first half of 1997, with 7.33 percent more tacked on in the third quarter. That was the worst performance of any domestic stock fund group but still enough to put them up 29.1 percent so far this year.

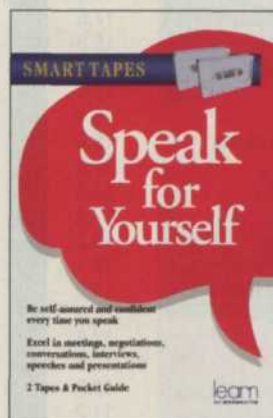
All domestic stock funds together earned on average 11.82 percent in the third quarter, according to Lipper, putting their total gain for the first nine months of the year at 26.2 percent.

That the big index funds trailed their small-company counterparts in the latest quarter was one of the most intriguing developments of the past three years. Since late 1994, investors have flocked to stocks of big, multinational corporations such as Coca-Cola and Gillette, confident that they could generate consistently strong earnings increases thanks to their world-

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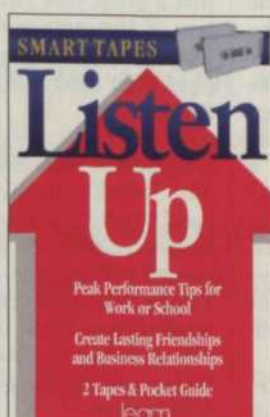
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wide reach and dominant industry positions. But in August, both Coke and Gillette warned that analysts' profit forecasts for the companies for the third quarter were too high, prompting selling in both stocks.

Nervous investors then projected that negative sentiment onto other big companies, sending the S&P 500 to a loss of 5.6 percent (assuming reinvestment of dividends) for August. The index regained much of that in September (up 5.5 percent), but Coke and Gillette languished.

The Dollar Influence

One factor in the new disillusionment with big stocks is the strong increase in the U.S. dollar compared with major foreign currencies, making U.S. products more expensive in international markets. Over the 12 months that ended Sept. 30, the dollar was up nearly 16 percent against the German mark and about 8 percent against the Japanese yen.

With that backdrop, O'Connor sees little reason for investors to rush back into the very biggest big-company stocks (the 20 or 30 largest) any time soon, although he does see opportunities below that top tier. Currently, he's partial to newspaper-publishing stocks, which he considers "a chicken way to play the strong economy."

How so? A strong economy generates strong demand for workers, housing, and automobiles—all of which are sought or sold through newspaper advertising.

On the downside, O'Connor says that even though technology stocks did well in the third quarter—computer and semiconductor makers were among the market's best performers—he isn't convinced they can continue to shine.

"I think people feel real comfortable with the technology area, and it's reflected in the fact that PC makers are selling at 30 times their [per-share] earnings, which is probably twice what they used to sell at," O'Connor says. "That doesn't leave a lot of room for disappointment."

Reprogramming For 2000

While O'Connor is cautiously optimistic, his colleague Hayward is more bullish about those sectors of the market where he invests. "The strength in the dollar doesn't hurt small companies," Hayward notes. "Over the past few years, we've seen the stock market correct [when it reaches excessively high levels] by rotating new sectors into a position of leadership. I think that's what we're doing right now."

In fact, the smaller the stocks you were buying in the third quarter, the better you did. So-called micro-cap funds—those that invest in the very tiniest stocks—earned 24.3 percent in the third quarter, by far the best gain shown by any group of funds.

Hayward says he's finding attractive investment opportunities in companies that provide experts to help solve the Year 2000 computer problem and in firms that own radio stations. Billions of dollars will be spent on the reprogramming of companies' computer systems so that they won't mistake the year 2000 as the year 1900, which could wreak havoc on operations.

Radio stocks have been hot performers over the past year, thanks largely to the Telecommunications Act of 1996, which loosened restrictions on the number of stations a single company can own. That launched a wave of station mergers and acquisitions that have been driving prices for those companies sharply higher ever since.

Many international stock markets have had a great year (with the notable exception of Japanese and other Pacific-region funds), but they generally failed to keep pace with their U.S. counterparts in the third quarter.

A Hospitable Bond Market

Also friendly to investors was the U.S. bond market, where the average taxable domestic bond fund tracked by Lipper earned 3.36 percent for the third quarter. Funds that invest in so-called high-yield bonds (those rated by credit-rating agencies as below investment grade) did even better, posting an average total return of 5.53 percent.

"I think people have found that this asset class [high-yield bonds] is getting to be viewed as more and more legitimate," observes Tom Soviero, manager of Fidelity Investments' Spartan High Income Fund. "Every day there are new issuers coming to market, along with demand for their paper from new investors."

Changes in the value of high-yield bonds depend principally upon the financial health of the corporations that issue them. With the economy strong, Soviero says, default rates on high-yield debt are at an extraordinarily low level of about 2.2 percent, compared with a historic rate of about 3 to 4 percent, meaning that prices for these securities are also at unusually high levels.

With both stock and bond markets priced at extraordinarily high levels, investors might reasonably ask, "When will the party be over?"

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

Stock Performance In The Third Quarter

Industry Group	Change In Value July 1 To Sept. 30
Oil, natural-gas services	25.9 %
Freight, shipping	20.4
Real estate	18.3
Savings and loans	17.9
Recreation—broadcasting	17.6
Nasdaq Index	16.9
Foods—meats, dairy	16.5
Electronics	16.4
Metals fabrication	16.4
Business data processing	15.9
Retail—apparel	14.8
Building—heavy	13.9
Banking	13.4
Business equipment	13.3
Retail—miscellaneous	13.1
Machinery—light equipment	13.0
Investments	12.8
Business services	12.5
AMEX Index	12.3
Credit	12.0
Building	11.2
Airlines	10.9
Textiles—apparel	10.5
Automotive	10.5
Hotels, motels, restaurants	10.1
Oil, refining, marketing	9.8
Machinery—heavy	9.3
Retail—department stores	9.0
Real-estate investing	8.7
Insurance	8.4
Recreation—luxury	8.4
Retail—discount, drugs	8.2
Media General Stock Index	8.0
Utilities—gas, other	7.9
Aerospace	7.7
NYSE Index	7.5
S&P 500 Index	7.0
Precision instruments	6.7
Paper, packaging	6.7
Rubber, plastic	6.3
S&P Industrial Index	6.3
Food production	5.9
Personal services	5.3
Recreation—movies, sports	5.2
Electrical equipment	4.6
Communications	4.6
Health	4.0
Utilities—electric	3.9
Dow Jones Industrial Average	3.6
Multi-industry	3.0
Railroads	3.0
Chemicals	2.9
Metals—iron, steel	2.7
Publishing	2.6
Housewares, furnishings	2.6
Food—packaged goods	2.0
Retail—food stores	2.0
Drug manufacturers	1.6
Textile manufacturing	0.6
Metals—nonferrous, coal	-1.0
Food—confections	-2.3
Metals—rare	-3.1
Oil, natural-gas production	-3.4
Tobacco	-4.2
Distillers—brewers	-4.5
Shoes, leather	-7.5
Cosmetics—personal	-7.6

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RETIREMENT SAVINGS

What You Need To Know About Annuities

By Stephen Blakely

To Arthur Epstein, owner of an automobile-parts distributorship, having variable annuities has meant two things: more retirement security for himself and greater incentive for his key managers to make the business succeed.

Epstein is CEO of Packerland Automotive Group, Inc., a Madison, Wis., company that does business in several

vehicle to defer taxes, and it gave me the ability to participate in the stock market."

A lot of business owners and others are hoping to duplicate Epstein's experience. Sales of variable annuities have soared more than 58 percent in the past three years (to almost \$74 billion in 1996), and they are projected to nearly double by 2000. As the median age of Americans moves higher and the first wave of post-World War II baby boomers approaches

over \$271,050 a year), while long-term capital gains from stock investments are taxed at the far lower rate of 20 percent for most people.

Many financial experts say, however, that annuities can be beneficial for people who already have other retirement savings. They advise that individuals or companies do their homework before investing, pay close attention to the costs (not just the returns), and be very patient.

Some recommend that an annuity be held at least 20 years to offset the tax differential and the extra insurance fees.

In a two-part series beginning with this article and concluding next month, *Nation's Business* will provide information that can help you decide if annuities would be useful for your firm and beneficial for your personal finances.

What Are Annuities?

Annuities are sometimes described as the flip side of life insurance. Whereas life insurance is designed to provide financial protection against dying too soon, annuities provide a hedge against outliving your retirement savings.

When you buy an annuity, the insurance company invests your money and agrees to pay you back according to the contract terms. Annuities provide a death benefit, and one of their chief selling points is the option of "a guaranteed income for life."

While life insurance is designed to create principal, an annuity is designed ultimately to liquidate principal that has been created, typically in regular payments over a period of years.

Annuities come in two basic forms: *immediate*, which begin providing payouts immediately and which continue for a specific period or for the life of the recipient, and *deferred*, where payouts are delayed while the money is invested and the assets grow.

Immediate annuities appeal to people who want to start drawing on a lump-sum pension distribution or inheritance that they have rolled over into one of these products. Deferred annuities, which are far more common, allow individuals to invest money and let it grow without being taxed until they start to withdraw the assets.

The two major types of deferred annuities are *fixed*, where interest is guaran-



PHOTO: CIBRENT NICAISTRO

Purchasing variable annuities for his key executives' retirement plans helped spur the growth of his Madison, Wis., auto-parts distributorship, says Arthur Epstein, left, owner and CEO of Packerland Automotive Group, Inc. With him are Raymond T. Walker, center, president of Packerland Distribution Co., and Steven J. Epstein, vice president.

states. He bought variable annuities in 1982 for himself and two key officers of the firm as part of the executives' deferred-compensation benefit. Variable annuities provide a unique combination of tax-deferred investment options and insurance features, and Epstein structured them to reward the managers for exceeding the company's profit goals. The annuities supplement the 401(k) retirement-savings plan offered to all 150 Packerland employees.

Now, 15 years later, both his business and the variable annuities have thrived. And at age 62, Epstein regards the annuities as important for both his company's performance and his personal financial security. An annuity, he says, is "a good

retirement, interest in variable annuities is surging.

But do people really understand the complex financial product into which they're pouring all this money?

Many do not, according to critics such as Christopher Lott of Morristown, N.J., who publishes *The Invest FAQ*, a financial-information site on the World Wide Web at www.invest-faq.com. He contends that equity index funds (mutual funds that track a stock-market index) cost less and generally provide a "much more favorable tax situation than an annuity."

Critics such as Lott cite the tax implications of annuities because their earnings are taxed at the rates for ordinary income (up to 39.6 percent for taxable income

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teed for a period, usually one, three, or five years; and *variable*, where the return varies with the investment. Currently, the *deferred variable* annuity is the fastest-selling annuity product because returns are benefiting from the soaring stock market.

Most variable-annuity contracts allow investors to choose from a wide range of stock and bond funds, including fixed- and variable-return options, to achieve diversification and risk management.

Providers typically offer extensive services that help people or businesses manage their investments, such as automatic "rebalancing" of their portfolio to maintain the desired mix of investments and risk.

Key Features Of Variable Annuities

Variable annuities have three major features that make them attractive for retirement savings:

Tax Deferral

Income earned from annuity investments is not taxed until it is withdrawn, and then it is taxed as ordinary income, which can reach as high as 39.6 percent, depending on your tax bracket.

What makes annuities—as well as 401(k)s and IRAs—such powerful vehicles for retirement savings is their tax-deferred compounding over time. While there are limits on contributions to 401(k)s and IRAs, there is no limit on the amount of money that can be invested in an annuity.

Annuities, however, are purchased with after-tax money, whereas 401(k)s and some IRAs are purchased with tax-deferred, pretax dollars. That is why financial specialists generally advise people first to maximize contributions to 401(k) plans and IRAs (when eligible) before considering annuities.

Transfers between annuity investment funds are also tax-free, as they are with 401(k)s and IRAs.

Death Benefit

This is the key insurance feature of annuities, and it guarantees that if you die before you receive your assets, your beneficiaries will receive either the principal you have invested (minus withdrawals) or the current market value of the contract, whichever is greater. Given the historically strong growth of long-term equity investments, this insurance benefit is highly

unlikely to be needed—but it does protect principal against investment losses.

Many companies also offer a "step-up" option to lock in the market gains after several years, but this feature will raise the annuity's annual fee.

Although the contributions to an annuity are not subject to probate, the earnings are taxable at death. For example, if you contributed \$50,000 to an annuity that grew to \$200,000 by the time of your death, the \$150,000 in earnings would be subject to both income and estate taxes.

Withdrawal Flexibility

Most annuities allow the holder to customize the manner and timetable of distribution of the assets. Withdrawals before age 59½ are subject to a 10 percent federal tax penalty. With annuities, you don't have to start drawing on the assets until age 85; IRAs and 401(k)s, by comparison, require that distributions begin no later than age 70½.

The Costs Of Annuities

A variable annuity has two phases. The first is the accumulation phase, when you allocate your contributions among various investment options and accumulate earnings on a tax-deferred basis. The second is the distribution phase, when you begin withdrawing your money. Each phase has different costs.

Accumulating Assets

A deferred variable annuity carries extra costs because of its nature as an insurance product. These costs can vary significantly among providers, and sometimes various charges are waived for competitive reasons. Among these expenses are:

Insurance costs, to guarantee the death benefit and to pay the insurance agent's sales commission. This averages about 1.25 percent of the assets per year, or \$1,250 per \$100,000.

Management fees, for managing the investment funds and generating reports. These fees typically are under 1 percent annually, or less than \$1,000 per \$100,000.

Surrender charges, for bailing out of the contract early. This fee generally starts around 7 percent the first year and phases out over five to 10 years.

Administrative or contract charges, which range from \$25 to \$40 a year.

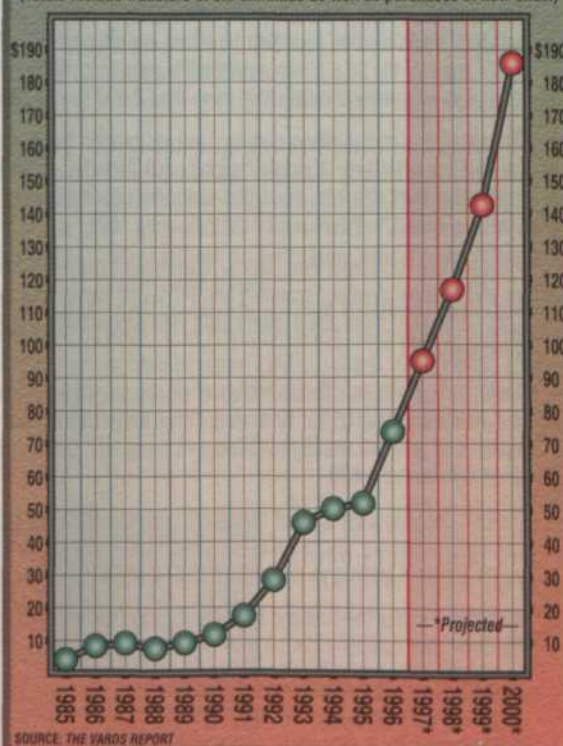
Those four categories of costs currently make the average variable annuity more

expensive than the average mutual fund, according to Lipper Analytical Services Inc., based in Summit, N.J. As of August, the average total of expenses per year for variable annuities equaled 2.01 percent of assets, or \$2,010 per \$100,000, according to Lipper, while the average total of expenses for all open-end mutual funds equaled 1.24 percent of assets, or \$1,240 per \$100,000, a difference of \$770 a year.

While such a difference may seem small, it can mean a lot over time. Say you invested \$10,000 and it grew 10 percent a year for 20 years. In a mutual fund with annual expenses of 1.24 percent of assets, the account's total value with compounded earnings at the end of 20 years would be \$53,627, according to calculations by Morningstar Inc., a Chicago-based investment-research service. But in an annuity with expenses of 2.01 percent

Sales Of Variable Annuities In Billions

(Totals include transfers of old annuities as well as purchases of new ones.)



per year, the bottom line would be \$46,523—a difference of \$7,104.

Because of such expenses and the time it takes to benefit from compound interest, there are no quick profits in annuities.

"You need the long-term earnings to maximize the mathematics of tax deferral," says Farrell Dolan, vice president of Boston-based Fidelity Investments'

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Distributing The Assets

In the distribution phase, investors must select how they want to receive payments. There are several payout options, all with various costs deducted from the payout. The three most common options are lump-sum withdrawal, lifetime income, and systematic payout (monthly is most popular).

Lump-sum withdrawal: The potential drawback is that all taxes are due immediately.

Guaranteed lifetime income: Also known as a "straight-life annuity," this option is chosen by relatively few people. It is more expensive than most other options, and it forecloses providing money for your heirs. But if you outlive the assets, the insurer is obligated to keep paying you money.

"Insurers have to assume some margin of safety that you don't live too long," says A. Michael Lipper, president of Lipper Analytical Services, explaining why insurance companies charge a premium for the straight-life option. The lifetime-income guarantee "is expensive, and you'll pay for that," he says.

Total Annuity Assets

In Billions, as of Dec. 31, 1996



A lifetime annuity called joint-and-last-survivor appeals to those who want income to continue as long as any of two or more people remain alive.

Systematic payout: This is the most flexible payout option for annuity holders.

It provides payouts at whatever intervals or amounts that the recipient stipulates. Payouts do cease, however, at the end of the period for which the annuity was established.

Critics say annuities cost more than mutual funds, require a long-term financial commitment, and are taxed at relatively high rates—up to 39.6 percent as ordinary income, compared with the 20 percent rate for long-term capital gains in taxable mutual funds.

But advocates say annuities are worth more because they offer more—specifically the death benefit, the safety of a guaranteed income, and the financial services that providers offer to investors.

"The big negative [with annuities] is that it's an expensive way to get investment service and a guarantee," says Michael Lipper. "But the safety factor is important, especially for a lot of small companies that want to guarantee their workers there will be something there for their retirement."

Next month: How to tell if an annuity is right for you.

BENEFITS

SIMPLE IRA Proves Popular

One option in the new SIMPLE retirement program for small businesses, which came on the market at the start of the year, is getting rave reviews, but the other is less popular.

SIMPLE (Savings Incentive Match Plan for Employees) plans were authorized by a law that was enacted last year and took effect Jan. 1. The law permits two new retirement plans exclusively for companies with 100 or fewer employees. One is the SIMPLE 401(k) tax-deferred savings plan, which is proving to be less popular with small businesses. The other is the SIMPLE Individual Retirement Account (IRA), which is proving to be quite popular.

The purpose of the SIMPLE arrangement is to give small-business owners an uncomplicated way to set up tax-deferred retirement accounts for themselves and their workers, mainly by cutting red tape for traditional 401(k)s and adapting IRAs for corporate use.

Under SIMPLE, owners and workers can defer a percentage of their pay up to an annual total of \$6,000 with either the 401(k) or IRA option. Companies must

contribute to workers' plans, either by matching 3 percent of a participating employee's salary dollar for dollar (up to \$6,000) or by kicking in 2 percent of all workers' pay (up to \$3,000) regardless of whether they participate.

All employees are granted immediate and full ownership of the funds in their accounts, including the company match.

While the SIMPLE IRA is winning favorable reviews, the SIMPLE 401(k) is seen as too complex and more expensive than conventional small-business 401(k)s because of the employer's administrative requirements and the mandatory matching contribution.

Wendell Collins, spokesperson for Merrill Lynch, Inc., of Princeton, N.J., says: "The SIMPLE IRA is vastly more popular. The reason is that the majority of small businesses find it is simpler, more cost-effective, and flexible. The biggest reason the 401(k) isn't popular is that it's more costly and the rules are more complex."

Ed Miner, first vice president for Kemper Funds of Chicago, says the SIMPLE IRA "has found a niche I didn't anticipate." Andrea O'Neill, vice president for

retirement plans at Boston-based Fidelity Investments, reports "much stronger demand than expected" for SIMPLE IRAs. "We've gotten a lot of calls from employees asking how to sell their employers on the plan," she says.

Although no precise numbers are available, the Investment Company Institute of Washington, D.C., which represents the mutual-fund industry, estimates there were about 40,000 SIMPLE plans covering perhaps 100,000 people by the end of the third quarter. By those numbers, the

average plan would have two to three participants—suggesting that SIMPLE is appealing to the very small companies that the program was created to serve. "There has been a lot of growth in this product. The plans are very small. It looks like this new law is working," says institute spokeswoman Elizabeth Powell.

Experts forecast that SIMPLE retirement plans will continue to grow, especially because the tax law enacted in August removed some technical hurdles to their creation.

—Stephen Blakely



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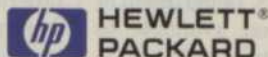
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EXPORTING

A Simplified Route To Markets Abroad

By Roberta Maynard

Over the years, Jimmy Kaplanges, who heads a small, well-established business, the GP66 Chemical Corp., has dabbled in exporting by selling some of his firm's industrial degreaser in Brazil, Spain, France, and Greece. He knew, however, that cracking the enormous Chinese market would require intensive, long-term help. So he turned to the federal export-assistance center in his company's home city of Baltimore.

As a result of the help he received from the center, Kaplanges expects sales of his product to the Chinese government for use in factories, schools, and businesses to increase his firm's annual revenue to \$12 million from the current \$3 million.

Kaplanges, a 30-year business veteran, says that before hooking up with U.S. government trade specialist Nasir Abbasi, his experience with several ineffective government export-promotion programs had left him skeptical of such efforts. But after working with Abbasi for two years to bring about the Chinese deal, he says: "We're a team. I couldn't have done it without his help."

A Streamlined System

Export advice from the U.S. Department of Commerce has long been available to small companies, but a major reorganization of the service-delivery system in 1994 made it easier for entrepreneurs to get the trade information they need from public and private sources.

"What we saw within the federal trade-promotion infrastructure around the U.S.

was that there was a tremendous amount of duplication," says Daniel J. McLaughlin, deputy assistant secretary of commerce for domestic operations. "In addition, a lot of programs weren't client-driven. It was frustrating for businesses, and it was frustrating within the government."

To address the problem, the Commerce Department in the past four years has set up 19 U.S. Export Assistance Centers, or USEACs, around the country. They are one-stop shops designed to help export-minded companies by serving as commu-

The federal government's reorganized export-assistance system is helping small firms sell to customers overseas.



PHOTO: T. MICHAEL KEZA

When he wanted to sell his firm's industrial degreaser in China, Jimmy Kaplanges, left, who heads the GP66 Chemical Corp., got the help he needed from Nasir Abbasi of the U.S. Export Assistance Center in Baltimore.

nication links to the department's district offices and to other export services.

For example, the USEAC in Dallas is staffed by five Commerce trade specialists, a trade-finance professional from the U.S. Small Business Administration (SBA), and a finance specialist from the Export-Import Bank. Throughout Texas and Oklahoma are six smaller offices where businesses can gain access to the experts in Dallas.

Trade specialists such as Abbasi work like consultants, keeping in touch with their small-business clients for months or years after their initial meeting. The export counseling they provide is tax-supported but otherwise free to businesses, although there may be fees for certain services. Examples include background checks of foreign companies and agents, identification of potential distributors or agents, and on-site help during meetings with business people overseas.

Foreign Expertise

Another business benefit created by the streamlining of the USEAC structure is access to the advice of Commerce Department staff members who have served in overseas posts and thus know the business climates and procedures in particular countries.

Nancy Charles-Parker, for example, recently returned from a tour of duty in Europe to become director of the Denver USEAC. Michael Keaveny recently left India to manage the Baltimore center. Walter Hage, who heads the Detroit office,

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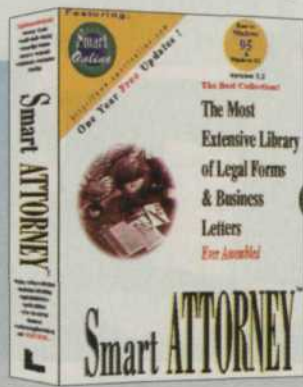


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EXPORTING

spent 25 years in overseas posts, including Africa.

Hage's expertise helped Chris Maduka increase overseas sales of his company's hair-care and skin-care products for ethnic markets. Maduka, vice president of Success Products USA, Inc., in East Lansing, Mich., says the Detroit USEAC provided support at overseas trade shows and helped him structure exclusive relationships with distributors.

As the distributors worked with Maduka to determine which products were in demand, the company became more customer-driven.

"That was the turning point for us," says Maduka. The company, with annual revenues of \$7 million, is now selling products in nine countries. In 1993, exports totaled less than 20 percent of the firm's sales; now they account for 80 percent.

The USEACs' principal goal is to find foreign markets for companies that the Commerce Department describes as export-ready. The companies should have exportable products, management that is committed to the exporting initiative, a budget earmarked for it, and personnel available to respond to trade leads, says Bill Schrage, director of the Dallas USEAC. About one-third of the calls fielded by his office are from companies that have never exported, he says.

Schrage adds that there is a lot of potential for firms already selling overseas to expand to new markets. "We want to get more companies into exporting," he says, "but we also want to help companies that are already exporting and want to expand."

The Initial Contact

Typically, USEACs are contacted by companies that have received a trade inquiry from overseas or have identified a market they are considering entering. Often, they want to know whether their product is in demand in that market and how they can get export financing.

"Once we meet a company that is ready to take advantage of our services, we go visit their plant or office, spend a few hours with them, and try to determine what kind of help they need," says Schrage.

USEAC staff members work with state offices, economic-development agencies, freight forwarders, port authorities, the Service Corps of Retired Executives, world trade centers, and the Commerce



PHOTO: ERICHARD HANNON

A trade specialist at the U.S. Export Assistance Center in Denver helped Keith and Colleen Austin export their product for learning-challenged children. They expect sales in Canada to account for one-third of their revenues this year.

Department's foreign commercial service as well as U.S. embassies.

For example, the Detroit USEAC worked with U.S. Embassy staff members in Manila, the Philippine capital, on behalf of Leonard Xerri, president of Design USA Ltd. in suburban Detroit. As a result, Design USA—an import-export business that deals in furniture and decorative

wood-carved products—was able to put together a show at the embassy that generated "tremendous" revenue, Xerri says. He established a presence in the Philippines that got his business off the ground there.

For firms that aren't quite ready to export, Commerce trade specialists can establish connections with agencies that can help them become prepared. Colleen and Keith Austin, for example, were new to business when an opportunity to export arose. They had started Lilliput, LLC, in Casper,

Wyo., and had licensed several products designed to stimulate learning in children who are visually impaired or otherwise challenged. Early in 1996 they began manufacturing the products, and they soon received orders, the first from Canada.

Paul Bergman, a senior trade specialist at the Denver USEAC, introduced the Austins to the local small-business-development center for basic help with a business plan, and he took them to an SBA office to discuss financing. Meanwhile, Bergman did some legwork to determine which Canadian product category applied to Lilliput's products, a step that was needed before the orders could be filled.

The Austins made their first export sale in July 1996. Since then, the coordinated effort that Bergman led has provided the Austins with counseling on patents, financing, production, shipping, customs, and collections. This year the Austins expect revenues of \$150,000, one-third attributable to sales to Canada.

The Commerce Department's USEACs measure their progress and evaluate their specialists on the basis of export actions—verifiable activities that lead to overseas transactions. Last year, Commerce field offices reported 8,164 export actions, up from 3,938 four years ago. But because companies are asked to report only their first overseas shipment, subsequent sales often are not reported. So Commerce is looking for better ways to measure the help that USEACs give to small exporters.

To exporter Jimmy Kaplanges in Baltimore, the USEACs' value is clear: "These guys are there, and they're responsive. They helped me deal at the highest levels with the Chinese government. They helped me sell my product." **NB**

Export Centers


Following are the Department of Commerce's U.S. Export Assistance Centers for small and midsize companies:

Atlanta: (404) 657-1900
Baltimore: (410) 962-4539
Boston: (617) 424-5990
Charlotte, N.C.: (704) 333-4886
Chicago: (312) 353-8045
Cleveland: (216) 522-4750
Dallas: (214) 767-0542
Denver: (303) 844-6622
Detroit: (313) 226-3650
Long Beach, Calif.: (310) 980-4550
Miami: (305) 526-7425
Minneapolis: (612) 348-1638
New Orleans: (504) 589-6546
New York City: (212) 466-5222
Philadelphia: (215) 597-6101
Portland, Ore.: (503) 326-3001
St. Louis: (314) 425-3302
San Jose, Calif.: (408) 271-7300
Seattle: (206) 553-5615

For the location and phone number of any of the 80 smaller Commerce Department offices linked to the Export Assistance Centers, call 1-800-USA-TRADE (1-800-872-8723).

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MANAGING

Letting Go Of The Details

By Linda Formichelli

Richard Louis used to spend so much time trying to manage all aspects of his growing Internet-service business that he lost sight of what was going on in the industry. "I was still doing the things I hired other people to do," says Louis, president of AlbanyNet, a seven-employee firm in Albany, N.Y. "I wanted to have my hands in everything."

Louis vowed to change his so-called nanomanagement style after he realized that he had come to rely on a competitor to keep him abreast of industry news. "Now I teach my employees how to do something and let them do it themselves," he says. "That way they learn to do it, and I can concentrate on running the business."

Like entrepreneur Louis, many small-business owners find themselves too involved in every aspect of the business they created.

"There's a lot of nanomanagement in small companies because that's how they started," says Karl Weidner, owner of Small Business Growth Consultants in Cincinnati. "You have to know something about everything." As a result, he says, some owners of small firms get involved in every part of the daily operations. "Nanomanagement is good for the first part of the learning curve, but it shouldn't continue after the first six months."

Nanomanagement is a term for micromanagement in a small firm. In small, entrepreneurial companies, micromanagement by one person—typically the owner—can be especially growth-inhibiting because it can have a proportionately larger sweep through the firm than micromanagement by one executive in a large company.

Sending The Wrong Message

After the start-up phase, some owners continue to nanomanage because they're afraid that something will go wrong. But excessive attention to details can send the wrong message to clients and employees. "What's the message to the clients if the owner has to go over his employees' work with a fine-tooth comb?" says Weidner. "The whole food chain is endangered because you haven't delegated and trained employees and let them go."

Nanomanagers also risk stunting their company's growth, says Aldonna Ambler,



PHOTO: © MARTIN BENJAMIN—BLACK STAR

His now-discarded nanomanagement practices, says Richard Louis, left, distracted him from running his Internet-services firm. With him is Matthew Zahorik, vice president for operations.

president and CEO of Ambler Growth Strategy Consultants in Cherry Hill, N.J. "People who nanomanage are not doing strategic planning," she says. "They miss the big picture. They're so busy doing the small things [that] they don't notice that the result isn't what they want."

Another risk for the nanomanager is burnout. Carla Itzkowich, a self-professed "recovering nanomanager" who is president of International Contact, a multilanguage communications agency in Oakland, Calif., says she is "upset and stressed out" most days. "My goal is to find alternatives with technology to take away some of the stress, but it takes a lot of energy to put it together. While you're firefighting, there's no reality to your plans."

Workers Take The Brunt

The front-line victims of nanomanagement are, undeniably, employees. Their room for advancement becomes restricted because the owner won't relinquish responsibilities. The resentment that employees feel when they are not trusted to do their jobs can result in high turnover, says Itzkowich. "At any one time I always have job openings.

Nanomanagement—a term for micromanagement in a small firm—is a problem that should be solved before it crimps company growth.

The end result of poor delegation is that you're continually looking to reorganize."

Fred Chittenden, owner of Lake Stevens Dental Clinic, a six-employee firm in Lake Stevens, Wash., agrees that delegation is the key to overcoming nanomanagement. He headed off the problem at his clinic by assigning tasks based on his employees' talents so they would not need constant supervision.

"A business is a lot like a garden," he says. "Individual plants can't grow to their full potential if they are shaded from the sun by the ever-present shadow of the gardener."

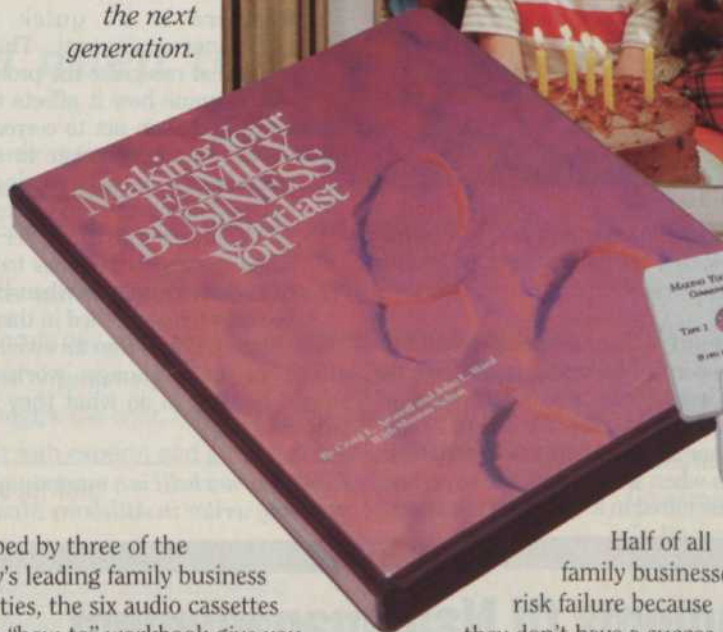
Problems With Hiring

New entrepreneurs often have difficulty figuring out what kind of workers to hire. If the wrong people are hired, they require more training and supervision, which invites nanomanagement.

Julie Koch, owner of Elegant Additions, a Houston showroom where decorative hardware and plumbing fixtures are on display for architects and designers, says: "In the beginning, I didn't know what kind of workers I needed. I ended up doing their

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MANAGING

jobs myself because some employees didn't understand the mission."

Now, 10 years after starting the company—which has 10 employees—Koch is in the early stages of opening more showrooms around the country, and she says she has become better at picking the right people. "As I matured with the business, it became clear what kind of employees I needed. Now I hire based on whether the people have the skills my business requires."

Unexpectedly fast growth can force owners to hire low-wage, inexperienced workers quickly to deal with the increase in business. The owners might view this as a temporary solution for increased workloads, but it can breed nanomanagement and hinder the long-term growth of the company.

"It's a Catch-22 because the people I can afford right now don't have the skill set to produce the results that I need," says Itzkowich. "For example, right now we're looking for a network administrator. I can't possibly afford that, so I'll get someone at a lower level and nanomanage him."

Consultant Ambler advises, however, that "hiring someone with aptitude costs a bit more but can make your company much more money" in the long run.

Training Is The Key

Some firms by nature are prime candidates for nanomanagement. For example, businesses founded on the creative talents of the owner often struggle with nanomanagement because the success of the enterprise depends on the owner's style.

Rene Reiser, owner of Paradise Candles, a three-employee candle manufacturer in Idaho Falls, Idaho, finds it hard to step away from the production process because the candles must look similar to those in her catalog—which means training her employees to duplicate a style that took her years to develop. "Eventually, I'll have to teach someone else to do it," she concedes. "It makes me nervous because it took me two years to get it right. And I wonder, 'Will they do it in my style?'"

What can creative owners do—short of cloning themselves—to overcome this problem? One option is to work with the employees to develop products that reflect their own creative talents and to base the business on several individual styles. An alternative is to hire someone to run the operations and stick to managing the creative side of the business.

Beating Nanomanagement

Before you can hire the right employees and provide proper training, you need a clear vi-

sion of what you want your business to be. Establishing goals, making plans for new products or services, and setting market-share targets can help you see where your talents are needed most—so you can stop mismanaging your time and skills.



PHOTO: SCOTT GOLDSMITH

Charting a direction for the firm can cure nanomanagement, says marketing entrepreneur Anita Brattina.

Anita Brattina, founder and president of Direct Response Marketing in Pittsburgh and author of *Diary of a Small Business Owner* (AMACOM, \$21.95), lacked confidence in her ability to attract experienced employees when she started, she says, and she became mired in a swamp of nanoman-

agement. "A lack of confidence makes you want to check and recheck and explain things," she says. One result was high turnover. "When you're critical and keep checking your employees' work, they quit."

Since then, Brattina has discarded her nanomanagement practices to build her company into a successful, 70-employee business. She has stepped into the CEO position fully, delegating day-to-day tasks to thoroughly trained employees.

How did she do it? "It's vision that gets you out of the prison of nanomanagement," she says. "You need to have a clear picture of what the company will look like so many years from now. How many employees, and what kind? How many customers, and where are they? What kind of equipment and space, and what are you doing in that space?"

"This makes it easier to delegate. When you're clear about where the company is going and the right people are hired ... it's a nice feeling to be with a team that's heading in the same direction."

There is no quick fix for nanomanagement. The owner must recognize the problem, determine how it affects the company, and then act to correct it—by paying more attention to strategic planning, perhaps, or writing a manual on policies and procedures.

Of course, a firm can suffer as much when the owner becomes too distant from daily details as when he or she becomes too enmeshed in them.

The bottom line is that an owner cannot afford to nanomanage workers who should be able to do what they are employed to do. **NB**

Linda Formichelli is a marketing and advertising writer in Attleboro, Mass.

Symptoms Of Nanomanagement

You're focused too tightly on the small details, experts say, when you find that:

- You're too busy answering the phones to think about marketing.
- You're starting to think that your job title is "Referee of Employee Disputes."
- You can't find time to update your business plan.
- You don't have time to think about a manual on company policies.
- You're afraid to delegate important responsibilities.

■ You would rather do routine tasks yourself than train employees to do them.

■ You confuse excessive attention to employees' work with mentoring.

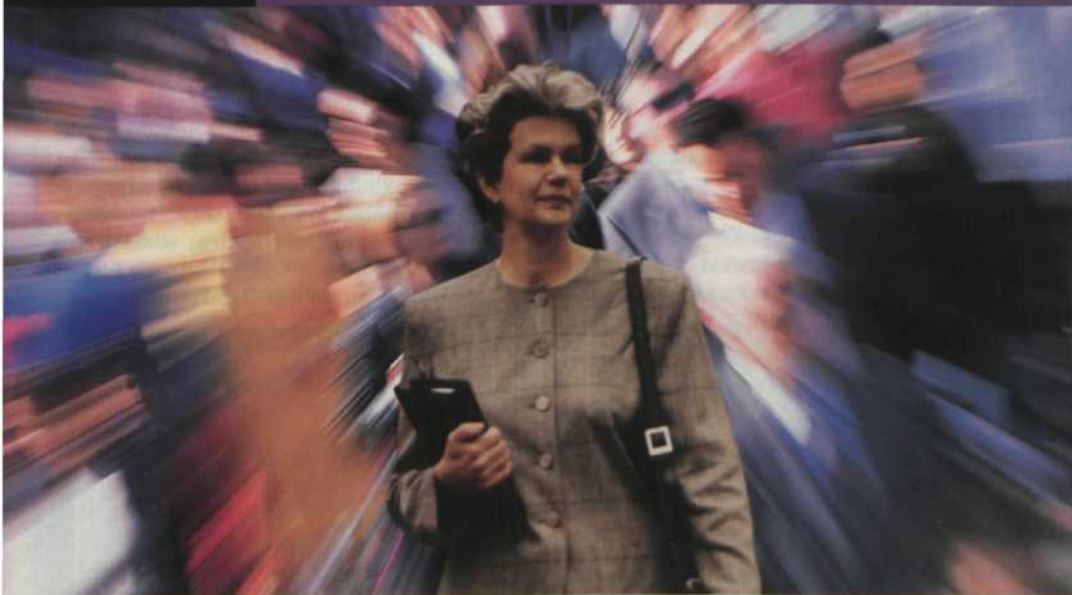
■ You feel your employees can never live up to your standards.

■ You don't know where you want your company to be in five years because you're too busy worrying about the next five minutes.

■ You never take a vacation. After all, whom could you trust to leave in charge?



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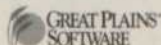
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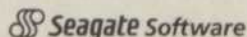
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FINANCE

Venturing Out For Rapid Growth

By Roberta Reynes

When Mark Pacala joined American WholeHealth Inc. last year as chief executive officer, he knew that the most important job he faced was the hunt for money.

Founded by physician David Edelberg in Chicago in 1993, WholeHealth consisted of two clinics—in Chicago and Denver.

The firm was little more than an idea—but a spectacular one, Pacala thought. WholeHealth hoped to build a national chain of clinics that, like the ones in Chicago and Denver, would offer not only traditional medicine but also acupuncture, massage therapy, psychotherapy, and other disciplines sometimes associated with holistic medicine. A patient would be referred to either a traditional or an alternative practitioner depending on the diagnosis by the person's primary-care physician.

The new CEO saw venture capital as almost the only option to finance the rapid growth he envisioned. Venture capitalists raise money from institutional investors, such as pension funds, and buy equity in young businesses. They add value to their portfolios of companies through their broad business experience and industry knowledge.

Typically, these financiers sit on the board and take an active role in management and operations—overseeing, for example, hiring and firing. They aim for an eventual return of 20 to 30 times their investment when the company goes public, often in about four years.

Owners of small companies who want to pursue venture capital should be willing to relinquish some control of their firms in return for the money.

Venture capitalists poured more than \$10.1 billion into U.S.-based small companies in 1996, a 53 percent leap from the previous year, according to the Coopers & Lybrand accounting and management-consulting firm. So far this year, the financing climate has continued to sizzle.

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

"There is just an abundance of money chasing transactions today," says Bob Paglia, partner in charge of the Financial Advisory Services Group of Coopers & Lybrand in Boston. "Probably more so than in decades."

By buying stakes in young enterprises and lending their experience and knowledge, venture capitalists can help turn ideas into expanding businesses.

appropriate team. The executive group, he says, should include people who have achieved objectives like those necessary for the success of the firm seeking the venture capital.

Venture capitalists "tend to favor busi-



PHOTO: T. MICHAEL KEZA

Rapid expansion at American WholeHealth Inc. is being carried out with an infusion of venture capital. Here the company's CEO, Mark Pacala, confers with nurse Diane Linden.

Finding Investors

It's not necessarily important to be profitable before approaching venture capitalists, but your company must offer a unique product or service. "The business plan must also show a large market," says Scott Meadow, a general partner at Sprout Group, a New York City venture-capital firm. The project should be one that can be financed in increments and whose progress can be evaluated clearly along the way. Sprout sees about 3,000 business plans a year and makes 14 investments.

One of the biggest mistakes that entrepreneurs make, says Meadow, is failing to assess their strengths and weaknesses and to complement themselves with an

nesses close to the office, so network in your community," advises Mark Heesen, director of legislative, regulatory, and entrepreneurial affairs for the National Venture Capital Association in Arlington, Va. Also, network in your industry.

Some of the major accounting and management consulting firms can provide help. Price Waterhouse, for example, offers financial-advisory services to small businesses seeking venture capital. Among other things, the firm can help to identify appropriate financiers and improve business plans. For information, call 1-888-537-0003.

Coopers & Lybrand offers introductions to venture capitalists, help with business

plans, assistance in negotiations, and a substantive guide, *Three Keys to Obtaining Venture Capital*. Call 1-888-609-7117.

The Essential Ingredients

Although a key task facing Pacala at American WholeHealth was to make the company more attractive to future investors, his hiring itself had been essential to completion of the company's first venture-capital deal, which totaled \$6 million.

In late 1995, founder Edelberg had used business contacts to meet financiers. In March 1996, Chicago-based Essex Woodlands Health Ventures, which has more than \$100 million invested in small firms in the health-care industry, had provided \$1 million in exchange for 17 percent of Edelberg's business.

Essex then contacted Sprout Group. Sprout, with more than \$1 billion in small-company equities, dropped \$3 million into WholeHealth's pot, and Essex added \$2 million.

In exchange, the two financiers together ended up with just over 50 percent of the business. A representative from each venture-capital firm joined the board and insisted that a new, professional management team be brought in.

Sprout Group's Meadow suggested Pacala—who had led rapidly growing large companies—for the post of CEO. The \$5 million in financing closed on Sept. 1, 1996, the day Pacala arrived. Edelberg is now chairman.

During Pacala's first eight months, he recruited senior managers, strengthened other staffing, and developed a business plan with specifics on how the two clinics would be expanded into a national chain.

He added a third clinic, in Bethesda, Md., and moved the company's headquarters to Reston, Va., where he lives. He built a pipeline of acquisition candidates and began developing the infrastructure, such as computer systems, to support the rollout.

The plan projected four new clinics for 1997 (all have been opened) and 10 per year for the next several years through acquisition of existing practices, which then would be enlarged by the addition of staff members.

Going For Another Round

By springtime, new investors were expressing interest in the company. WholeHealth decided to begin a second round of financing in May, even though, says Pacala, it had "a fairly significant

chunk" of the \$6 million left. The process would require deft management: Pacala believed that long-term success for the 65-employee business would depend on choosing the right partners—and on not being overwhelmed in doing so.

"Dealing with big-name venture capitalists is very time-consuming," he says. "It sucks leadership out of day-to-day operations." The financiers "want to do site visits, interview management, get all kinds of company records, digest all that, and then come up with a myriad of questions."

A long list of possibilities, provided mostly by Sprout and Essex, was narrowed, using questions such as: Does the venture capitalist have a history in health care and consumer services? Does he or she have pockets deep enough to finance future rounds?

In addition, Pacala wanted venture capitalists with differing styles. "If you get a room full of highly extroverted, very direct, Type A people, it can be like herding cats," he says. Mixing in "reflective, contemplative" board members would provide balance.

The financing effort was a triumph, says Meadow, who helped raise the money. WholeHealth hoped to raise \$7 million to \$8 million. But enthusiasm ran so high that the financing spiraled to \$15 million. In August, Sprout, Essex, and four other firms finalized the deal. When all the money is invested over what could be 18 months, the venture capitalists will own about two-thirds of the company.

Striking A Balance

Pacala attributes the success partly to "people's belief about the future of health care." But even with such enthusiasm, negotiating agreements isn't easy. "The partnership must be supportive of all interests," he says. "Venture capitalists make a mistake when they cut a deal that is too pro-investor, where they have their claws in the firm so strongly that management doesn't have any oxygen."

"On the other hand, for management to think that their rights are equal to the venture capitalists' when they are not putting up significant money is ridiculous, too."

"So, it's a long process of give and take. ... The key is to pick quality people who have common sense, high integrity, and objectives aligned with yours."

NB

Roberta Reynes is a free-lance business writer in Spencertown, N.Y.

Obtaining venture capital is "a long process of give and take. ... The key is to pick quality people."

—Mark Pacala, CEO, American WholeHealth

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EDUCATION

Opening A Door To The Future

By Michael Barrier

Think back to when you were 17 or 18 years old, a senior in high school or a freshman in college. What did you know about business then? Maybe your parents were in business; maybe you even worked for them in the summer, or after school. But did you really have a clue about the kinds of decisions that business people make every day? Did you know enough even to begin considering a business career for yourself?

For most people, the honest answer to both questions would be "no." But every summer, 400 young people come away from the program called Operation Enterprise (OE), sponsored by the American Management Association (AMA), prepared to answer "yes."

What OE offers, says Richard Bauer Jr., a 1969 alumnus, is "your first exposure to business"—that is, the first opportunity to talk about business with business people apart from neighbors and family.

Bauer grew up in a business family; he's

now executive vice president and chief operating officer of Eastern Alloys in Maybrook, N.Y., a 110-employee zinc-alloy company that his father founded in 1965. But he says that having "social relationships that have a business slant to them" is very different from sitting down with an entrepreneur and hearing what it's like to be in business.

Teenagers don't know what business is like, Bauer says. "I certainly didn't. You've taken a lot of things for granted. Now you get to see it for yourself. You get to ask questions."

A Select Student Body

Operation Enterprise was started in 1963 as an outgrowth of the management courses that the AMA has offered for many years to people in the midst of their business careers. Most OE sessions are held at a 150-acre facility in rural Hamilton, N.Y., that the AMA built—complete with an airport—in the 1960s as an executive retreat.

Operation Enterprise introduces hundreds of students annually to the realities of the business world.

(OE's other sites are in Troy, Mich.; Washington, D.C., and Lloydminster, Alberta.)

Each 10-day session—there were six last summer in Hamilton, as well as a six-day session designed for older college students—is restricted to no more than 40 students, who hear from as many as a dozen "practitioners," as Reg Wilson, the program's director, calls them.

The business people, who range from high-ranking executives at big companies to front-line supervisors at small firms, are, Wilson says, "sharing experiences they had just the day before." He estimates that about half the practitioners come from small companies.

"We are attracting people who want to give something back, who want to share what they've learned," says Wilson. "All of our speakers are volunteering their time, and most of them are picking up their own travel expenses."

Faculty members change from program

Exploring business topics under the umbrella of the American Management Association's Operation Enterprise, students meet in small groups with men and women who own and run companies.



to program, but the topics—including leadership, entrepreneurship, planning, and team building—remain the same.

The speakers follow "topic outlines," Wilson emphasizes. "They're not coming in just to tell stories," he says, but to cover specific points, illuminated by their experience. The students also go through simulations in which they deal with typical business issues such as budgets, personnel, and internal communication.

Says Wilson: "We're getting into the essence of management, developing management skills for whatever profession you choose, [and explaining] how processes work, how relationships work."

The setting is relaxed, and as Bauer points out, "chances are the people who volunteer to speak are pretty motivated individuals themselves. They enjoy business; they're not just putting their time in. These are people who love what they do. It provides a very positive experience."

Benefits For Both Sides

It is a positive experience not only for the students but also for them, participating business leaders say. One who takes part two or three times each summer is June Stahl, president of Stahl Soap Corp. in East Rutherford, N.J. Stahl Soap, which has about 65 employees and originated in pre-World War II Vienna, makes bar soap for industrial and institutional markets.

"They prepare the kids, they give you a lot of prep materials," Stahl says. "I really enjoyed getting up in front of the kids and talking about how I got into my business, what it really means."

"It made me really think about what I do and look at my own job in a slightly different light. We very rarely, as business people, step back from our day-to-day activities."

Stahl made her first three-hour presentation about 10 years ago, and at the end, she says, she felt "absolutely" that she had connected with her audience. "And their questions were questions that I wish I had had the opportunity to ask someone" before she was forced to assume leadership of the family firm at age 25, upon the sudden death of her father.

Stahl adds: "Everyone I've talked to who came back from the program has told me that it was the most incredible experience they've ever had. You hear that, and you know it's worthwhile."

The ripples of that enthusiasm have reached business people who have not yet served as speakers themselves. Joseph

"I've been involved in a lot of things, but I've never seen a more enthusiastic group of kids" than those at Operation Enterprise.

—Printing Firm Founder
Joseph Green

Green, who founded PPS, Inc., a 55-employee specialty printing firm in Olathe, Kan., in 1964, has visited Operation Enterprise sessions several times while attending other AMA meetings in Hamilton. He provides a scholarship for one student every year, as does June Stahl. "The recipients of the scholarships, in the letters I get, just rave about it," Green says.

Company Support

About 70 percent of those attending are on scholar-

ships provided by companies, which may either restrict recipients to a certain group (children of employees, for example) or let the AMA choose them from the applicants. A scholarship costs \$1,500. The American Hardware Manufacturers Association alone provides 50 scholarships annually. Other companies support students directly, without going through the AMA.

The value of the scholarship program, Green says, is that it enables "a lot of bright kids that otherwise would not have the resources" to attend.

It's the program itself that's the strongest argument for business support, he suggests. "I've been involved in a lot of things," he says, "but I've never seen a more enthusiastic and excited group of kids" than those he has seen at Operation Enterprise.

Richard Bauer Sr., who still heads Eastern Alloys as its CEO, has sent many local people, including sons and daughters of employees, through the program; last summer, his grandson attended. "So many of the people I've sent," he says, "remember how, 15 or 20 years ago, it shaped their lives before they went to college. It was a great first experience away from home."

After almost 30 years, Richard Bauer Jr. remembers his OE experience fondly, but from a 17-year-old's perspective: "I walked away thinking, 'Gee, that wasn't anywhere near as bad as I thought it was going to be.' When you're 17, that's a huge thing."

To Learn More

For information on supporting Operation Enterprise, call 1-800-634-4262 or write to OE at P.O. Box 88, Hamilton, N.Y. 13346. The e-mail address is oeama1@aol.com.

Student applications are available from the same addresses. Applicants—high school juniors and seniors 16 or older and college students of any age—must submit an essay and other supporting material. **1B**

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TRAVEL

Cutting Costs Before Takeoff

By Peter Weaver

With air fares and lodging prices expected to continue edging up in the months ahead, business travelers may have to do some specially targeted planning to minimize the costs of going on the road.

Business-travel experts are suggesting a number of money-saving tactics that range from being selective about the days you travel and where you stay to choosing a cost-effective way to pay for the trip.

Airline expenses, for example, can be cut as much as 50 percent by carefully timing out-of-town meeting dates, experts say. "Talk to your travel agent to check what days and times give you the best air fares," says Dina Palek, an agent with Chicago-based Quille Travel.

Certain days, such as Tuesday and Wednesday, are often the best for obtaining discount fares, Palek says, and Monday is next-best. The time of day also can be important. "A deeply discounted seat might be available mid-day or in the evening," she says, "but not in the earlier morning hours or late afternoon."

Work out the best travel days and times, Palek advises, and then plan your business meetings accordingly.

Ed Perkins, editor of *Consumer Reports Travel Letter*, recommends discounted seven-day, 14-day, or 21-day advance-purchase airline tickets. "You always pay top dollar to the airlines by making your plans, or changing them, at the last minute," he says. But such tickets issued by major airlines usually require the passenger to stay overnight Saturday at the destination.

If your destination is served by major airlines as well as lower-cost carriers, there may be deep discounts on fares, particularly at certain times. "When a major airline faces direct competition from a low-cost company," says David Perelman, president of New York City-based DMS Travel Group,



PHOTO: ©DAVID R. FRAZER—FOLO, INC.

Air-fare discounts are sometimes available if you're willing to change planes in an airline's hub city.

"you'll find that they offer competitive if not identical fares." Such fares may be available only for competing flights departing at about the same time of day, however.

Sometimes, though, it pays to pick the major airline's discounted fare over a low-cost airline's offering. You might want to build frequent-flyer points with the major airline rather than with a smaller carrier that you seldom use. Or you might prefer a major airline's amenities—such as a full meal instead of a bag of peanuts.

Another tactic for cutting air-travel costs, Perelman says, is to choose flights that involve a stop in one of an airline's hub cities. For example, if you want a round trip between Chicago and New York, you can save almost half the price of non-stop flights by taking US Airways flights requiring a stop in Pittsburgh. "When they don't have a competitive, direct flight,"

Experts' tips for trimming expenses reflect a common theme: Plan ahead.

Perelman explains, airlines "entice you with a lower fare that requires changing planes in one of their hub cities."

Another suggestion centers on airports. David Stempler, president of the Washington-based Air Travelers Association, which offers members travel discounts, says, "You should also look for alternative airports at both ends of your trip because you might find low-cost airline competition in one location and not the other." Look for airports that are no farther from each other than an hour's drive, Stempler says. He cites the New York City-Newark, N.J., region, the Washington-Baltimore area, and Louisville, Ky.-Cincinnati.

Overseas Strategies

Methods of lining up low-cost air fares for trips abroad are different from those for domestic travel. "Domestically, our deregulated airlines can offer any fare they want," says travel agent Edward Hasbrouck, author of *The Practical Nomad* (Moon Travel Handbooks, \$17.95), "while international carriers, regulated by the International Air Transport Association [IATA], have published fares they have to adhere to."

But because "there's no limit on how much commission the airlines can pay travel agents and other travel-related companies to encourage them to sell seats," Hasbrouck says, a travel agency that got a commission of, say, 30 percent could give much of it to a customer as a discount.

"This means you have to deal with specialized brokers, called consolidators or wholesalers, instead of the airlines," Hasbrouck says. Travel agents, especially those who specialize in business travel, often have specific wholesalers or consolidators they deal with for discounting international air fares.

Travel editor Perkins says that "you can save hundreds of dollars on fares to Asia and Latin America almost any time and to Europe during the peak [higher-cost] summer season" by using a consolidator.

Bear in mind that your savings on inter-

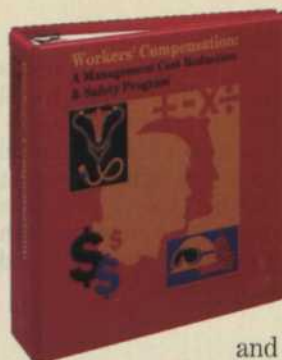
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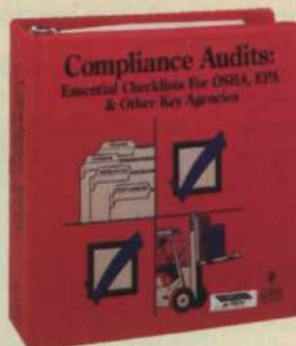


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TRAVEL

national air fares will depend on your destination and travel dates. There are times when the airlines' own economy or excursion fares are lower than those you could get from a consolidator.

Tickets purchased through a consolidator generally don't earn frequent-flyer mileage points.

Hotel And Motel Bargains

You can sometimes cut one-half off quoted room rates by getting your reservations through a hotel broker.

Hotels often designate 10 to 15 percent of their rooms to be sold by brokers at deeply discounted rates because these specialized travel companies can guarantee the hotels business in the low season and can bring in new customers all year.

"We save a lot of money by using a hotel broker for all of our business," says Terry Gorka, co-owner (with his wife, Valerie) of Golf Pacific Coast, a small package-tour company in Ventura, Calif. "One major hotel in Las Vegas normally charges up to \$200 a night for a room we can get through our broker for \$69," he says, and "we can get rooms in cities where the whole town seems to be booked up tight for a convention or other special event."



PHOTO: ©DON HAMERMAN—FOCUS, INC.

Business-oriented amenities such as modems are now offered by even some lower-cost hotel and motel chains.

Robert Diener, president of Hotel Reservations Network, a discount broker based in Dallas, says that hotel brokers can give small firms "the same kind of volume-purchasing leverage that big corporations have."

Here's how it works: You call a broker and describe your preferences for type of hotel, location, and amenities. Thus, you avoid having to make long-distance calls to hotels in your destination city to compare rates. A

hotel broker "can also set up golf arrangements, transportation, and meeting space if you need it," says Gorka.

Hotel brokers generally find the biggest discounts among the largest chains in major metropolitan areas and resort spots. But you can often get even lower rates by staying at budget hotels.

"Names such as Motel 6, Super 8, EconoLodge, Comfort Inn, Days Inn, Howard Johnson, Red Roof, and Travel Lodge,"

according to Diener, "have been upgrading their facilities over the past five years and offer nice, clean rooms, some of which even have modem connections for laptop computers and other business-oriented amenities."

Cars And Credit Cards

When renting a car, use discount coupons from airline frequent-flyer clubs, travel agents, or membership organizations.

Another way to save money on travel costs is to use an airline affiliation credit card to handle the bulk of your business purchases. The more you purchase with the card, the more frequent-flyer miles and hotel points you accumulate.

The Final Test

"Of course, the absolute best way to cut the cost of a business trip," says Perkins, "is not to take the trip in the first place. Always ask yourself: Is this trip necessary? Could the business be done with a conference call or at a later date in conjunction with another trip?"

If you decide, though, that the trip is a must, then your next step is to begin charting the most cost-effective ways to go.

For More Information

Membership in the Air Travelers Association costs \$49.95 a year; call 1-800-AIR-SAFE (1-800-247-7233).

Air-fare consolidators' names, addresses, phone numbers, and countries served are listed in the October 1995 issue of *Consumer Reports Travel Letter*. To obtain a copy, send \$5 to the publication at 101 Truman Ave., Yonkers, N.Y. 10703-1057.

Hotel brokers' names and phone numbers are listed in the June 1997 issue of the publication; it is available for \$5 at the same address.

Some hotel brokers and air-fare consolidators are listed on the Internet at www.1travel.com. Unpublished discount air fares can be found at www.bestfares.com. **1B**

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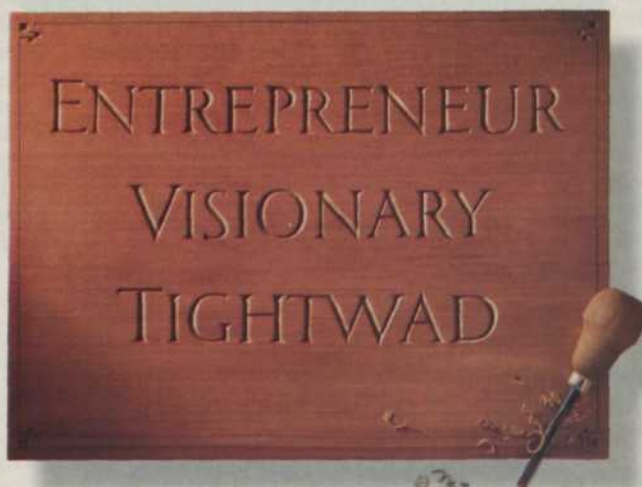
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The 1998 Luxury Cars

By Julie Candler

Like a stately yacht that was caught on a sandbar, the luxury-car market is rising slowly with the tide—a tide created by appealing and aggressively priced new vehicles and the emergence of affluent new customers.

For 1997, luxury-car sales are expected to show an increase of about 4 percent, says Susan Jacobs, president of Jacobs & Associates, an auto-marketing consulting firm in Rutherford, N.J. She forecasts that sales will increase by about 1 percent in 1998.

According to *Ward's Automotive Reports*, however, 1997 sales of luxury cars had increased by 7.5 percent through August compared with the same period in 1996.

U.S. sales of domestic and foreign luxury cars had declined slightly in recent years. After reaching more than 1.2 million in 1994, they dropped by 3.5 percent in 1995 and by an additional 2 percent in 1996.

Jacobs attributes the healthier 1997 market partly to a stock market that has posted strong gains for the past three years. "There is a wealth effect," she says. "Not that [investors] are cashing out, but they feel they have the wherewithal to splurge a little."

Also, many small-business owners are treating themselves to luxury cars as a strong economy has helped to boost their companies' profits.

Jim Press, senior vice president and general manager of the Lexus Division of Toyota Motor Sales, U.S.A., based in Torrance, Calif., cites another source of new customers: "The number of affluent households is growing faster today, and [baby] boomers are entering the luxury market."

Another factor is a switch back to luxury cars by people who had owned sport-utility vehicles, says Art Spinella, director of automotive research at CNW Marketing/Research in Bandon, Ore.

Spinella cites a study of 1996 purchases indicating that 19 percent of those who switched back from a sport-utility to a car purchased a luxury vehicle (priced above \$35,000) or what the industry calls a near-luxury vehicle (priced at \$25,000 to \$35,000). Of those buyers who formerly owned the biggest sport-utilities, 37 percent



The Lincoln Town Car has been dramatically restyled and comes with many engineering upgrades for the new model year.

switched to a luxury or near-luxury car.

The market is also being helped by the steadiness of prices—and even some price cuts—for luxury cars, says Jacobs. In recent years, consumers resisted luxury-car prices, which were rising faster than their incomes and the rate of inflation. "People were finding that their present cars were more durable than previous models," she says. "That gave them a greater ability to wait for better deals if they thought current prices were too high."

Above all, it's the cars themselves that are spurring the growth of the luxury market, says Jacobs. "The market is being supported by a lot of new product coming in," she says, referring to all-new cars with new designs. "They started in 1997 and will keep flowing in 1998."

Innovative technological features on many of the new luxury coupes and sedans also are increasing their appeal to consumers. Among those features are:

- Variable steering, which makes parking easy and provides stability at highway speeds.

- Lighter engines and transmissions that operate quietly and smoothly while providing more-responsive performance.

- Traction control, which detects when a wheel is about to lose traction and,

through electronic controls, prevents the wheel from spinning.

- Vehicle navigation devices that use satellite-linked global-positioning systems to guide motorists turn by turn.

- Heated and ventilated seats, and steering wheels that automatically tilt upward for easy entry and exit.

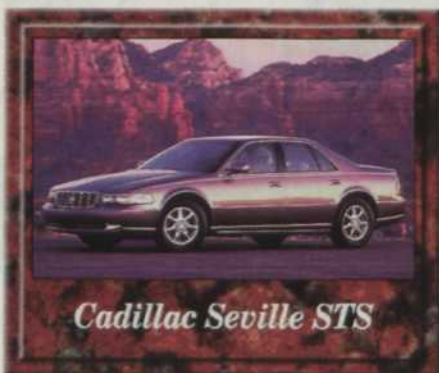
Among the innovations for 1998 is the Cadillac Seville STS's optional adaptive seating, an industry first. It adjusts the front seats' support to custom-fit every individual.

The system uses a network of 10 air cells placed between the leather upholstery and foam in the seat cushion and back. Electronic sensors attached to the air cells measure and adjust internal pressure levels every four minutes as the occupant moves in the seat.

A Mercedes-Benz system, Parktronic—introduced last year on the top-of-the-line S-Class vehicles and offered as an option this year on the upper-luxury E-Class models—sounds a warning and lights a bar-graph display if drivers get too close to other vehicles or objects when the car is moving at 10 mph or less or is backing up. The system uses high-frequency sound waves to sense objects near front or rear bumpers.

On 1998 models, most luxury-car mak-

SPECIAL REPORT

**BMW 740i****Cadillac Seville STS**

ers are continuing their leadership in safety features by providing an extra air bag on each side of the front of the passenger compartment, for protection in side impacts. Among the automakers now offering the side air bags on some or all of their vehicles are Audi, BMW, Cadillac, Infiniti, Jaguar, Lexus, Nissan (on the Maxima), Saab, Volvo, and Toyota (on the Avalon).

Jaguar is among the luxury-car makers that have added safety-belt pretensioners for 1998. These take up the slack on the belts within milliseconds of a frontal collision, reducing the distance that a driver or passenger moves forward.

While most luxury cars are four-door sedans, there is a trend back to coupes. Mercedes, Lexus, and Volvo are releasing innovative, handsome, new or redesigned two-doors for 1998.

Executives at Lexus, in launching their new SC 400 and SC 300 sport coupes, say that as baby boomers become empty nesters, these buyers will seek expressive, fun automobiles. As the publicity for Mercedes' new CLK coupe says, "It's for baby boomers who want to reward themselves."

Although the overall luxury-car market is expected to grow, analysts are forecasting a continuing drop in sales of domestically made luxury cars because of boomers' attachment to foreign products. Jacobs estimates that 1997 sales of luxury cars made in the United States will be down 10 percent. As of August, sales of luxury cars manufactured outside the United States—

including sport and specialty-coupe models—were up 16.5 percent compared with the same period in 1996, according to *Ward's Automotive Reports*.

But Jacobs adds that "the domestic makers are starting to evolve their lineups. Cadillac took the first step with the Catera," which is based on the platform of the Opel Omega, a luxury car made in Germany by a General Motors subsidiary, "and Lincoln's 1998 Town Car styling is more European in its look."

Two-seater roadsters such as the Mercedes SLK, the Porsche Boxster, the BMW Z3, and the Chevrolet Corvette are not covered in this article because of their limited production numbers. Unless otherwise noted, the vehicles described below have front-wheel drive, meaning power is delivered to the front rather than the rear wheels.

In the following descriptions of 1998 cars' major features and innovations, luxury models are listed in the first group, near-luxury models in the second. Some prices do not include destination charges, and if prices for 1998 models were not available, 1997 prices are given.

Over \$35,000**Acura**

The suspension is sportier than before on Acura's top-of-the-line 3.5RL, a four-door, five-passenger sedan (\$41,435 for 1997). Among new standard features are machine-finished alloy wheels, an eight-speaker Acura/Bose audio system with anti-theft features, and a three-point safety belt for the center rear seat.

The optional, satellite-linked Acura Navigation System is the only such device in the industry that is in-dash and has a touch-screen display. Dealers will update local mapping software at no charge every six months for the first two years.

BMW

The 5- and 7-Series rear-wheel-drive vehicles feature a standard Head Protection System, a tube-shaped air bag that pops out of the interior's roof to protect the head and neck of the driver and front passenger in a side collision. The air bags are installed in combination with standard door-mounted side air bags that protect the upper body, so there are six inflatable restraint systems in each car.

BMW's with automatic front-seat-belt tensioners cinch the belts tighter instantly in a severe frontal impact, and the system detects whether an impact requires only tensioners or both tensioners and air bags.

All 7-Series models will have a tilt-entry steering wheel. In addition, a dynamic stability-control system that takes over in critical cornering situations becomes stan-

dard on the 7-Series and the 540i automatic. Prices for 7-Series models are \$61,640 for the 740i with a V-6 engine; \$65,590 for the 740iL, a long-wheelbase model with a V-8 engine; and \$91,890 for the 750iL with a V-12 engine. The 8-Series has been dropped.

Last November, BMW became the first manufacturer to make traction control standard on all models; the feature reduces the spinning of wheels and enables surer acceleration on slippery surfaces.

By year's end, BMW expects to be the first automaker producing cars in the United States to make navigation systems available across the model line. A factory-installed, on-board navigation system that covers 48 states was available on 1997 5- and 7-Series cars.

Cadillac

A new Seville, a five-passenger, high-performance luxury sedan, will go on sale in December. Its new body is a trimmer evolution of the successful look introduced in 1992.

The Seville Luxury Sedan (SLS) will have a base price of \$41,000 to \$43,000. The base price for the more upscale Seville Touring Sedan (STS) will be about \$46,000. The SLS features a 275-horsepower NorthStar V-8, while the STS is powered by a 300-horsepower NorthStar V-8.

Inside, the STS features the optional adaptive seating described in the introduction to this article. Standard on the STS is a Bose 4.0 sound system.

A U.S. industry first on the STS and some

**Jaguar XJ8****Lexus GS 400**

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Sleek new exterior makes these vehicles look as smart as they are

Two new all-aluminum engines; more horsepower and torque than their predecessors

'98 Chrysler Concorde

Battery saver feature turns off exterior lamps, accidentally left on, after 10 minutes

Rigid body structure enhances vehicle handling

Advanced cab-forward design means a roomier interior and larger trunk



'98 Dodge Intrepid

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SPECIAL REPORT

other 1998 Cadillacs is a radio data system that uses FM-based technology to allow broadcasters to silently transmit text such as station call letters, stock quotes, sports scores, and emergency messages, along with the audio signal. The radio data system, used in Europe, is expected to be employed widely in the United States as more FM stations adopt the technology.

The system is standard on the STS and an option on the Eldorado Touring Coupe, DeVille, DeVille Concours, and DeVille d'Elegance models that include a high-level Bose entertainment system.

The STS also features a new automatic-transmission technology called Performance Algorithm Shifting. It uses sensors to respond much like a manual transmission during fast-driving maneuvers such as hard cornering. Both the SLS and STS are equipped with standard StabiliTrak, a stability-control system that helps in difficult driving situations.

The StabiliTrak system is standard on the Eldorado Touring Coupe (\$43,360) and the five-passenger DeVille Concours (\$42,960) and is an option on the DeVille (\$38,360) and the DeVille d'Elegance (\$41,960).

Infiniti

After a mid-1997 addition of front-seat side air bags, the Q45 (\$48,395 for 1997) adds front-seat-belt pretensioners and a new odometer with liquid crystal display and dual trip meters.

Jaguar

The XJ6 becomes the XJ8, with Jaguar's 4-liter V-8, the same 290-horsepower engine that powers the XK8 sports coupe introduced last year. The same power plant now is standard on all Jaguar sedans: the standard-wheelbase XJ8 (\$55,330), the long-wheelbase XJ8 L (\$60,330), the extra-luxurious Vanden Plas (\$64,380), and the supercharged XJR (\$67,980).

Jaguar has made major mechanical changes to the sedans, including new five-speed automatic transmissions and re-engineered suspension and electrical systems. Their interiors have been redesigned, but the cars retain their classic exterior appearance.

Lexus

An all-new GS series puts priority on performance by stressing power, cornering ability, interior comfort, stability, and safety. The GS 300 (\$36,800) and the GS 400 (\$44,800) are five-passenger, rear-wheel-drive sedans built on a completely new platform and positioned between the entry-level ES 300 (\$30,790) and the LS 400 (\$52,900). They utilize a new skid-control system integrated with traction control and anti-lock brakes.

An optional touch-screen navigation system on the instrument panel also controls heating, air-conditioning, and audio-system settings. A hard-disk database source for navigation contains detailed maps of 35 metropolitan areas. Three map updates covering 48 states can be downloaded using plug-in software cards available free from dealers for cars under warranty.



Mercedes-Benz E320



Bentley Azure



Volvo C70 Coupe

The GS 400 is powered by a new-generation, all-aluminum, 4-liter, 32-valve V-8 with 300 horsepower. It is the first V-8 to utilize continuously variable valve timing, a system of controlling combustion for better fuel economy, emission control, and standing-start torque. The GS 400 goes from 0 to 60 in six seconds.

The GS 300 is equipped with a 225-horsepower, 3-liter six-cylinder and can go from 0 to 60 in 7.8 seconds.

Refinements to the top-of-the-line LS 400 include the 32-valve V-8 as standard.

Lincoln

The rear-wheel-drive, six-passenger Lincoln Town Car (\$38,500) comes in a dramatically restyled package that is more than 80 percent new. Changes include a more rigid frame and upgrades to the chassis, suspension, and brakes.

The front-seat area has a 40/20/40 arrangement—40 percent each for driver and passenger, 20 percent for an armrest that folds up and away to provide seating for a third occupant.

The trunk, exceeding 20 cubic feet, is among the largest in any car. The Town Car's 4.6-liter V-8 engine provides 200 horsepower in the Executive and Signature series vehicles. On the upscale Cartier series, the same engine with a dual exhaust gets up to 220 horsepower.

The Continental, a five- or six-passenger, four-door sedan, (\$38,500) gets a fresh look inside and out as well as changes to provide a more comfortable ride.

With the Continental's quickly adjustable Driver Selection System option, drivers can select plush, normal, or firm ride settings and steering modes. A Memory Profile System permits these and nine other features to be personalized for two drivers.

Other changes on the Continental include larger, quieter mufflers, smoother shifting, and valve-timing revisions for better performance. Audio and climate controls on the steering wheel become an option, as does SecuriLock, a theft-deterrent engine immobilizer. Another option is SecuriTire, with a pressure-alert system and extra-stiff Michelin tires that can be driven without air for up to 100 miles.

Mercedes-Benz

A new, face-lifted C-Class of midsize, rear-wheel-drive, four-door sedans sports a modified grille, a new front air dam (a spoiler beneath the bumper to reduce airflow), and a subtle spoiler on the trunk lid. The C280 (\$35,400) has a new 194-horsepower, three-valves-per-cylinder, 2.8-liter V-6 engine. It outperforms the previous model, is lighter, and uses less fuel.

A new E320 wagon (\$46,500) combines sedan styling, performance, and handling. The wagon and the E320 sedan (\$45,500) use a new V-6, an innovative engine that employs a three-valve, twin-spark-plug design for broader torque range and lower emissions. The 221-horsepower, 3.2-liter V-6 improves fuel efficiency by more than 10 percent. Both vehicles are available with full-time all-wheel drive and four-wheel electronic traction control as an option.

Also new is a full-size luxury/performance sedan, the E300 turbodiesel (\$41,800) with a 174-horsepower, 3-liter, turbocharged engine. The vehicle replaces the E300 diesel.

The all-new four-seater CLK luxury per-

SPECIAL REPORT

**Acura 3.0CL****Audi A6****Buick Park Avenue Ultra**

formance coupe (\$39,850) went on sale in October; it has a 3.2-liter V-6 engine and a full complement of luxury features. Its youth appeal shows in an interior design that includes four leather-upholstered bucket seats. The CLK has an industry first as standard: a fully electronic key system integrated into the remote locking unit. Because there is no key, it's impossible to steal the car using a duplicate key. The new electronic key also is standard on all C-Class and E-Class vehicles.

For 1998, an electronic brake-assist system will be standard on every Mercedes except the SLK roadster and the new ML320 sport-utility, which are slated to get the system in the 1999 model year. The system recognizes emergency braking when the pedal is depressed quickly and reacts with full-power brake force at split-second speed; Mercedes says this can stop a vehicle up to 45 percent faster than a car without the system.

Mercedes has also announced that traction control will be standard on all passenger cars except the C230, on which it is optional. All Mercedes cars are rear-wheel drive.

Rolls-Royce; Bentley

While Rolls-Royce is testing its next generation of curvier Rolls and Bentley models, expected in model year 1999, the Bentley Azure convertible (\$339,900) adds appointments to the "open tourer," as its British maker labels it. New are "motorised front seats with integral safety belts, to permit easy entry and exit for rear seat passengers," "new sports 17-inch alloy wheels with performance tyres," restyled front and rear bumpers, new sport seating front and rear, and a new laser-cut, stainless-steel grille.

Volvo

A stylish new four-passenger C70 coupe (\$38,995), a two-door hardtop, will go on sale before December. The curvy vehicle has a 2.3-liter, five-cylinder turbo engine that produces 240 horsepower. It's available with manual or automatic transmission. A convertible version is expected to be in showrooms next summer.

\$25,000 To \$35,000**Acura**

The CL series of two-door, four-passenger luxury sports coupes (\$25,545 for the base 3.0CL for 1997) gets a more powerful 2.3-liter engine with 150 horsepower. Other new standard features include a Homelink system to operate a garage door and lights, an immobilizer system that prevents hot-wiring, steering-wheel-mounted audio controls, alloy wheels, and a redesigned front grille.

The four-door TL (for touring luxury), a four-passenger luxury/performance sedan, moves to the Honda Accord platform and focuses on value by dropping the premium model and adding features. The sporty 2.5TL (\$28,885 for 1997) adds standard luxuries such as a power moonroof, a leather-trimmed interior, keyless entry, and heated front seats. On the more upscale 3.2TL (\$33,385 for 1997), heated front seats and mirrors become standard.

Audi

A total redesign, including an arched roof line, gives the A6 four-door sedan (\$33,750) more passenger and trunk space, a longer wheelbase, and more safety, comfort, and entertainment features as standard. A wagon version will arrive in 1998. The A6's 2.8-liter, 30-valve V-6 engine pairs with a five-speed automatic transmission. It can be ordered with Audi's popular all-wheel-drive quattro system or with front-wheel

drive. Buyers can choose from three interior packages.

An A4 Avant station wagon (\$30,465) joins the Audi lineup. It has a six-cylinder, 2.8-liter, 30-valve engine in both the quattro and front-wheel-drive versions.

BMW

All BMWs are equipped with sophisticated air bags that recognize whether the passenger seat is occupied; if it's not, the passenger-side air bag is not deployed in a collision, which can save repair costs. Side air bags are available on all 3-Series sedans.

For 1998, most 3-Series vehicles offer new premium packages with amenities such as sunroofs, keyless entry, and leather upholstery. (Prices for the 3-Series vehicles, except roadsters, range from \$21,960 for the 318ti to \$42,070 for the 328is convertible.)

A new 3-Series vehicle will go on sale in mid-1998. Replacing the four-cylinder 318

**Chrysler Sebring JXi****Infiniti I30****Mazda Millenia**

SPECIAL REPORT

The OnStar in-vehicle communications system becomes available on Catera as a dealer-installed option.

Chrysler

The stylish Sebring convertible coupe (\$25,575) has been such a hit that Chrysler is adding a Limited version. The new model offers additional luxuries such as wood-grain interior trim; perforated, leather-trimmed seats; and a padded console armrest. A 2.5-liter V-6 is substituted for the in-line, four-cylinder engine of the other Sebring models, the JX and the JXi. Design changes have been made on the four-cylinder engine to allow for quicker engine break-in.

Infiniti

The I30 mid-luxury sedan (\$29,395) adds standard enhancements such as front-seat side air bags, halogen headlights, taillights similar to those on the top-of-the-line Q45, a new rear finisher (the metal around the taillights), and a center console with cup holders. For the I30t touring model (\$31,995), new alloy wheels are standard. An outside temperature indicator and dual trip meters are interior additions. The J30 is being phased out after 1997.

Mazda

The only change on the Millenia (\$28,995) is a new logo, resembling an M with the wing-spread of a seagull forming its top.

Mercedes-Benz

The midsize C230 sedan (\$30,450) will keep its 2.3-liter, 148-horsepower, four-cylinder engine until model year 1999, when it will get a 168-horsepower V-6.

Mitsubishi

After a complete remake in the 1997 model year, the five-passenger, four-door Diamante sedan (\$27,650) adds anti-lock brakes as standard on both its ES and upgraded LS models. A new center console has a total of six cup holders front and rear.

Nissan

A deluxe seating package is added as an option on the performance-oriented SE (\$23,499) and luxury GLE (\$26,899) models of the Maxima four-door sedan. The package, designed for cold climates, includes heated seats and mirrors, a heavy-duty battery, and an indicator that warns when the window-washer fluid is low. It also has front side air bags.

Oldsmobile

The five-passenger LSS (\$28,700), which Olds calls a "full-size performance sedan," has a new electronically controlled automatic transmission that delivers consistently smooth shifts.

Buyers can choose between a 205-horsepower 3800 V-6 engine with normal air intake or a 240-horsepower, supercharged version of the same engine.

Pontiac

The Bonneville SSE five-passenger, four-door sedan (\$29,995) adds standard features including a customized eight-speaker Bose sound system. A head-up display projects vehicle speed, turn-signal indicators, and other information onto the windshield so drivers can keep their eyes on the road. An electronic four-speed automatic transmission with high torque capacity becomes standard.

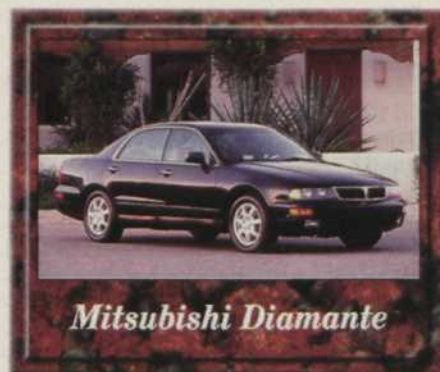
A 240-horsepower, supercharged V-6 is available with the SSEi special package.

Saab

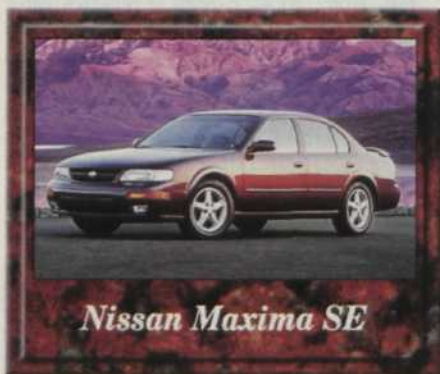
A limited edition of the 900 S coupe (\$24,500), a three-door hatchback, gets a 2-liter turbo engine in place of its 2.3-liter engine with normal air intake.

Only about 1,300 Saab 9000s will be imported by U.S. dealers in 1998, and only one model—the 9000 CSE turbo (\$38,580). That model is to be replaced next spring by the Saab 9-5, a five-passenger luxury-sport sedan.

The 9-5, Saab's biggest car yet, will be powered by a standard 2.3-liter, four-cylinder, lightly turbocharged engine that reduces fuel consumption by about 5 percent. During the first half of 1998, the world's first asymmetric turbo 3-liter V-6 engine, producing 200 horsepower, will become an option. Its single turbocharger



Mitsubishi Diamante



Nissan Maxima SE

will be a six-cylinder 323 and a 323i convertible.

Buick

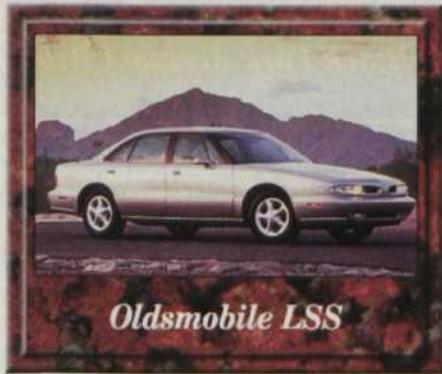
The top-of-the-line Park Avenue and Park Avenue Ultra (\$29,995 and \$34,995, respectively) add new standard equipment, including a cut-through opening from the trunk to the rear seat for transporting long items. Many features that are optional on the Park Avenue are standard on the Ultra. They include an outside rearview mirror that tilts down when the car is put in reverse, giving the driver a better view of a parking spot.

Both the Park Avenue and the full-size Riviera coupe (\$33,165) now offer as an option the OnStar in-vehicle communications system, which uses global-positioning-system satellite technology. OnStar's hands-free, voice-activated cellular phone and satellite tracking link drivers to a communications center for emergency or navigation help.

Cadillac

The Catera (\$30,635), a midsize, rear-wheel-drive, five-passenger car introduced as a 1997 model, adds convenience and safety features such as revised traction control for improved performance. For sunny days, there's an optional power sunshade that unreeles to cover the rear window at the touch of a button.

The optional Bose entertainment system adds an in-dash compact-disc player and the radio data system that's available on the over-\$35,000 Cadillac models.



Oldsmobile LSS



Pontiac Bonneville SSEi

SPECIAL REPORT



Saab 9-5

provides an extra power boost to each bank of three cylinders, making the engine more economical to manufacture than an engine with the traditional two-turbo arrangement.

The 9-5 will have two-stage air bags that inflate at different rates for belted or unbelted occupants. They will inflate with 25 percent less force for belted occupants.

Other innovations include the auto industry's first ventilated front seats, six high-pressure-jet windshield-washer nozzles, and an automatic audio-volume control that compensates for background noise.

In the safety area, the 9-5 will feature the world's first whiplash-reducing active head-restraint system, designed to limit

head movement during rear-end collisions. It moves a pressure plate up and forward to meet the head before whiplash starts.

The price range for the 9-5 is expected to be \$32,000 to \$40,000.

Toyota

Front-seat side air bags have been added to the Avalon, a five- or six-passenger, four-door sedan (\$24,698). New multiple-reflector headlights add style to the revised grille, and a wider trunk lid is designed for easier loading and unloading. Leather-trimmed seats with memory to store heat preferences for multiple drivers are a new option on the Avalon XLS.

Volvo

The former 850 sedans and wagons are now the 70 series and are restyled and improved inside and out. In June, the rear-wheel-drive 940 and 960 models will become the 90 series (\$34,300 for the S90, \$35,850 for the V90).

The new S70 four-door sedan (\$26,985) has more-rounded styling with a sloping, V-shaped hood, but it retains its distinctive rear section. Its suspension has been refined for improved handling. The base engine for the S70 and the V70 wagon (\$28,285) is a 168-horsepower five-cylinder.

The S70 GLT and V70 GLT models (\$32,440 and \$33,740, respectively) have a high-torque, five-cylinder engine with 190 horsepower.

The V70AWD (all-wheel drive) wagon (\$34,420) operates like a front-wheel-drive car under normal conditions. But on slippery roads it provides maximum grip by transferring up to 95 percent of power to the rear wheels.

The V70 XC (cross-country) AWD (\$36,170) has a 190-horsepower, low-pressure turbo engine. The car's larger rear axle adds to performance in slippery conditions. It has a roof rack and greater ground clearance than the V70AWD.

NB



Toyota Avalon XLS

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September Poll Results Readers' Views

Fix The Highways

By overwhelming margins, respondents to a *Nation's Business* poll said that federal fuel-tax receipts should be spent to build and repair highways and bridges, not to reduce the federal budget deficit.

In the Where I Stand poll in the September issue, five of every six respondents said they favored spending the \$24 billion surplus in the federal highway trust fund on roadways.

The surplus in the highway trust fund, like the current surplus in the Social Security trust fund, is used to help balance the overall federal budget and to mask the true size of the deficit.

In the poll, most readers also expressed opposition to the law that allowed some federal fuel-tax receipts to go directly to

budget balancing rather than to the highway trust fund. The 1993 provision that earmarked 4.3 cents per gallon for general revenues was repealed in the balanced-budget accord this past summer, and the 4.3 cents now goes to the highway trust fund.

Fifty-five percent of the respondents said they would not favor a higher fuel tax even if the additional revenues were spent on highway projects.

Most respondents also said that state and local officials should have more flexibility in deciding how to spend federal transportation funds, and most reported that the condition of major highways and bridges in their region was fair at best.

Here are the complete results:

Questions And Answers

What is the general condition of major highways and bridges in your region?

Excellent or good	18%
Fair	53
Marginal or poor	29

Should the federal highway program be streamlined to give state and local officials more flexibility in spending U.S. transportation funds?

Yes	86%
No	14

Do you favor spending the accumulated trust-fund surplus of about \$24 billion on highway and bridge construction and repair?

Yes	84%
No	16

Do you favor the law that designates some federal fuel-tax receipts to help balance the federal budget?

Yes	19%
No	81

Would you favor higher motor-vehicle fuel taxes if the additional money were dedicated to highway projects?

Yes	45%
No	55

Where I Stand

On Labor Issues

The strike this year by the Teamsters union against United Parcel Service was the biggest action by organized labor in years, involving 185,000 workers. These questions seek your views on labor-union issues.

Results of this poll will be published in the January issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders.

Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1

How did the recent Teamsters union strike against United Parcel Service affect your company?

1. Improved business
2. Hurt business
3. No impact

4

Do you expect an effort to unionize your employees within the next year?

1. Yes
2. No
3. Already have a union

2

Do you think the Teamsters-UPS strike and stepped-up union activity nationwide will increase chances of union activity in your industry?

1. Yes
2. No

5

Could your company survive a walkout by its employees?

1. Yes
2. No
3. Unsure

3

Do you expect your company to be adversely affected by a strike at another company in the next year?

1. Yes
2. No

6

Which among the following issues is of greatest concern to your employees?

1. Wages and benefits
2. Job security
3. Working conditions

Send Your Response Today!

Free-Spirited Enterprise

By Michael Barrier

When You're Hot, You're Hot—Or Not?

I had just spent a couple of hours visiting with Carl Nelson at Caribbean Food Products in Jacksonville Beach, Fla., when I sat down for lunch at a lovely place overlooking the Atlantic. I asked the server if she had any of Caribbean's signature product, Trinidad pepper sauce, and indeed she did.

"That's the best hot sauce," she said as she brought it to my table. "My girlfriend carries it in her purse."

I couldn't help but wonder if the server's friend carries the sauce to apply to food or maybe as a weapon, like pepper spray or Mace. That's because the principal ingredient in the Trinidad line, the ever-so-intimidating habanero pepper, is the hottest little son of a gun you're ever likely to eat (about 40 times hotter than a jalapeño pepper, Nelson says).

I had an intimate encounter with a habanero once at a dimly lit Washington reception; I mistook it for an innocent pepperoncini and scarfed it down in one bite. Within seconds, I knew I had eaten a habanero instead—and suddenly realized that "habanero" must be Spanish for "premature death."

Treated with the respect it deserves, though, the habanero is a delicious companion, and never more so, in my experience, than in the Trinidad sauces, which come in mild, hot,

and extra-hot versions.

"Our product is good on pizza, it's good on eggs, chicken, beef, pork, anything that you eat,"



says Nelson, exaggerating only a little if at all. "It enhances the flavors 10 times. If you've got a spaghetti sauce and you can't figure out what's wrong with it, just pour half a bottle of this [Trinidad mild] in there, and it'll fix it."

The "Trinidad" name has been earned legitimately; the peppers and spices that are the basis of the sauce actually come from Trinidad (Caribbean Food Products claims to be the United States' largest importer of habaneros).

It all started when Nelson's mother, Marie Permenter, left Jacksonville to become part owner of a gold mine in the South American country of Suriname. That was more than 30 years ago, when

Nelson was in the fourth grade; he and his two sisters stayed behind with their father.

Nelson's mother eventually wound up in Trinidad, where she now owns 22 Royal Castle chicken restaurants. She originated the sauce—which in addition to the habanero contains thyme, basil, ginger, garlic, sweet peppers, and celery—as a marinade for chicken.

After visiting Permenter over the years, Nelson's sister Mary Jane Barnes and her husband, Bob, decided to go into business selling her sauce. That was in 1990. Nelson, who had been running a silk-screen-printing plant in the Miami area, joined them a few weeks later. He handles sales, Bob Barnes handles production, and Mary Jane Barnes manages the business. Permenter—who is now 79—sends them 55-gallon drums of herbs and spices from Trinidad to use in the sauce.

In the early days, "we would make it at night," Nelson recalls—Bob Barnes still had a day job—"and I'd put 25 cases in the back of my Honda and go out and not come back until I'd sold them. I'd go to restaurants and health-food stores and fruit markets, wherever I thought I could sell the bottles."

Being a small specialty-food manufacturer is, alas, a business in which you can get burned. Says Nelson, "We didn't know what we were getting into when we started."

Maneuvering your products onto grocery-store shelves is the toughest—and most expensive—part, largely because of slotting fees. Those fees are, essentially, the rent that many grocery chains charge for space on their shelves until a product has proven itself. Thousands of dollars can be spent on slotting fees

to get into perhaps 125 stores.

Everything about the grocery industry—slotting fees, distribution, you name it—is geared to bigness, which means that a small company such as Caribbean has to climb its way to profitability slowly and painfully. Nelson thinks that Caribbean, an S corporation, will finally get there this year, after seven years.

In effect, he and the Barneses are making an end run around the grocery chains (although the Trinidad sauces are in a few, in the Southeast). They're selling to gourmet stores and to restaurants, Nelson says—as much as "\$80,000 in gallon business" the past two years, for example, with the trendy Planet Hollywood eateries in various cities.

They're co-packing (manufacturing other companies' food products for them in their tiny plant), and they're private-labeling, so that, for instance, a Syracuse, N.Y., barbecue restaurant is selling a Trinidad sauce under its own brand.

"For us, learning the hard way has been the only way," Nelson says. But they've made only small mistakes, he says, because they haven't had enough money to make any big ones—which suggests there is something to be said for being undercapitalized after all.

There's one more thing about Caribbean that's kind of reassuring. Here's a company that deals in hot peppers; it even has some habaneros growing beside its building. You'd think Nelson would be one of those guys who eats a handful of habaneros before breakfast, washing them down, maybe, with a swig of the rawest tequila. Not so.

"It depends on your mouth," Nelson says of sensitivity to hot peppers. "Me, I think they're all hot. I can't touch 'em."

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NB1197

Family Business

Keeping the conversation going; deciding if it's time to chart a new career.

PLANNING

Do-It-Yourself Family Meetings

By Sharon P. Krone and John L. Ward

Family-business experts continually tell business owners, "You should hold family meetings." We think that's great advice. But those experts also seem to be saying, "Don't try it on your own." That's where we disagree.

We believe that families *can* have successful meetings on their own, especially if a family member has been trained to facilitate family meetings.

The cost and sometimes unpredictable quality of outside facilitators may discourage business-owning families from having family meetings. They may find the do-it-yourself approach to be more comfortable.

Family meetings improve the chances that the business can continue into the next generation. We are talking about regular gatherings one to four times a year involving multiple generations—including children and spouses—who come to learn, discuss, dream, and plan as a family.

While the family's business is often an important topic at these meetings, any family-related subject is appropriate. Thus, the entire family, regardless of ownership or employment in the business, is urged to participate.

Agenda topics can include family mission statements, philanthropic or community activities, next-generation leadership, individual recognition, family policies, education, estate planning, family history, family fun, and many other matters.

Family involvement and participation contribute to the real goals of family meetings—greater cohesion, communication, and planning. A recent two-day family meeting we attended included not only discussion of the family's business and the business leader's succession plan but also talk about improvements to the family's vacation retreat, a presentation on estate planning, selection of those responsible for planning and implementing the next meeting, and a bass fishing contest!

Facilitating one's own family meeting

can seem daunting because of the potential emotional intensity of family discussions. To be effective, a family member acting as a facilitator must overcome emotional barriers, dispel



ILLUSTRATION: TROY THOMAS

longtime family stereotypes, and curtail long-standing conflicts among family members. All are tough to do.

"Sometimes it's hard to forget that your little brother Tommy broke your favorite toy truck when you were 5 years old," says a second-generation executive of a \$20 million-a-year textile company. Adds another family member: "We can count on Trent and Tommy disagreeing about something at every meeting. That used to upset Mom, but we've learned to deal with that dynamic more constructively now."

We have heard several objections to using family members as meeting facilitators; the concerns include inadequate training, lack of inherent qualities necessary to facilitate complex family meetings, and the difficulty of remaining objective.

Sometimes family members perceive these meetings as a waste of time or as a project initiated by family members with heavy personal agendas. Most of all, families want impartial facilitators.

We have found that a family is more likely to trust one of its own when it has a voice in choosing a facilitator and when safeguards prevent favoring personal agendas.

We urge you to try a family meeting, and we offer these tips to increase your probability of success:

Have co-facilitators. Elect at least two family members to facilitate the meeting. Co-facilitators provide checks and balances. If one wants to express strong opinions about a topic under discussion, the other facilitator leads that portion of the meeting.

Involve others. Having multiple family members involved in planning and running the meeting prevents the impression that any one person dominates the show, and it gives those not employed in the business a chance for leadership. Delegating responsibilities—such as keeping notes, tracking time, handling flip charts, typing minutes, chairing committees, and preparing handouts—will likely gain greater participation and support for the process.

It also frees the facilitator to concentrate on the crucial job of maintaining focus and momentum.

Provide for training. Great facilitators are goal-oriented, charismatic, flexible, professional, diplomatic, sensitive, intuitive, and patient. Many families have members who have demonstrated such skills in civic, church, school, or other groups. While some family members, because of their personalities, may be better qualified than others to be family-meeting

facilitators, they should enhance those skills through training—often available at local universities—in communication, conflict resolution, active listening, decision making, and group management. Experience in facilitating other groups can be helpful.

Know yourself—and your limits. Reflect on how you work and communicate. Recognize your strengths and weaknesses. When you participate in family meetings, you will find that understanding your personality style and how it affects your responses will give you greater appreciation for family members' different styles.

Similarly, family-member facilitators should understand where their competencies end and when professional intervention is necessary. Signs that professional help may be needed include intense conflict, sociopathic behavior, communication breakdowns that threaten the ability to continue the meeting, and domination by one person or a small group.

Minimize surprise. Family members want to feel safe as they approach the family meeting. Memos, reading materials, updates, and meeting agendas sent out far in advance are crucial for helping everyone feel prepared. We also recommend that facilitators invite suggestions, contributions, and feedback before finalizing the agenda.

Set the rules first. A priority item on the first meeting's agenda should be establishing ground rules that will provide the

safety and reinforcement necessary for family members to interact. Here are some examples of ground rules we have seen: Each person speaks for himself or herself. No cell phones or pagers are allowed. There can be only "one meeting"—no side conversations. Participants must be mentally and emotionally present. Latecomers are "fined" (25 cents a minute, for example).

**Take it slowly—
with meeting length
and content. Give
the agenda substance
but avoid
overload; one or
two heavy topics
are enough in the
early going.**

Have fun. Family meetings work best when they incorporate opportunities for family fun. Fond memories and jokes evolve alongside serious discussions and help lighten the mood during the meeting. Some families build in presentations by members of the younger generation. Some create a commercial for the business or make T-shirts with original slogans. Skits and talent shows are popular. Projects and activities can be highlights of the meeting.

Pay attention to details. Logistical elements can make or break a meeting. People are naturally more willing to sit in a room and talk to one another if the chairs are comfortable, the coffee is hot, and the breaks are ample.

Are telephone banks and restrooms nearby? Who's watching the children during the meeting? Will snacks be available between meals?

Some families assign a hospitality committee to ensure everyone's comfort.

Take your time. Take it slowly—with meeting length and content. Give the agenda substance but avoid overload; one or two heavy topics are enough in the early going. Some families begin with a three-hour meeting to set ground rules and to plan the agenda and arrangements for the next meeting. Later, families may choose to move to a half-day or full-day format or even a weekend retreat.

Family meetings are their own reward. In the early stages, the *process* of meeting—communication, sharing, building trust and openness, resolving conflicts—is much more important than tangible outcomes.

Well-facilitated meetings help families find the strength to deal with the challenges that come with owning and managing their businesses. ■

The Family Business Case Study appears on Page 74.

MARK YOUR CALENDAR



Nov. 6, Weston, Mass.

"Pillow Talk on the Edge," a program that looks at what happens when a spouse's role in the firm goes beyond support, is an offering of the Northeastern University Center for Family Business. Call Paul I. Karofsky; (617) 320-8015.

Nov. 8-10, Dallas

"Effective Representation of Family-Held Enterprises" is an annual seminar of Attorneys for Family-Held Enterprises. For information, call the organization at (201) 488-9323.

Nov. 11, St. Louis

"Effective Leadership in Emotional Systems: Families and Family Businesses" is a session sponsored by the Family Business Forum of Southern Illinois University at Edwardsville. To be repeated Nov. 12 in Bloomington, Ill. Call Rich Lumma; 1-800-692-4333.

Nov. 11, Northampton, Mass.

"Fathers and Sons, Mothers and Daughters: Taking It Personally" features psychotherapist Edward Monte. Call Ira Bryck at the University of Massachusetts Family Business Center; (413) 545-1537.

Nov. 11, Elmhurst, Ill.

"Passing the Torch: Addressing Ownership and Business Succession Issues" is a seminar of the Midwest Association of Family Business Owners. Call (630) 495-8900.

Nov. 12, Baltimore

"Valuing and Selling a Business" is a morning session offered by the Loyola Center for Closely Held Firms. Call (410) 617-2691.

Nov. 18, Bedford, N.H.

"Planning for Short- and Long-Term Growth" is a program of the University of New Hampshire Center for Family Business. Call Barbara V. Draper; (603) 862-1107.

Nov. 19, Cambridge, Mass.

"Family Business Conflicts" is aimed at professionals who work with business families. Call the Cambridge Center for Creative Enterprise; (617) 576-5700.

Nov. 20, Philadelphia

"Building Thriving Sibling Partnerships" is a breakfast seminar of the Delaware Valley Family Business Center. Call Henry Landes; 1-800-296-3832.



Sharon P. Krone heads the Family Business Communications Institute at Loyola University Chicago's Family Business Center. John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Copyright © by the Family Business Consulting Group, Inc.

FAMILY BUSINESS

Case Study: Drawn To A Different Dream

Jason always wondered what life would be like without a family business. Now, at age 50, maybe it's time to find out. His love of horses and horse racing has always been intense, while his position as owner and general manager of the family's clothing store, Burns & Son Clothiers, just doesn't cut it anymore.

Founded 45 years ago by Jason's parents, the company is now in severe jeopardy, with its niche in upper-end children's wear being filled increasingly by designer boutiques in large department stores.

Jason was raised in a warm and loving household, and his parents had silently

counted on their only child to be their successor in the store. But when he completed business school and was about to start a career outside the family firm, the message from Mom came through loud and clear: "Your father needs your help." Jason was beckoned to fulfill his obligation. How could he refuse?

Now, some 25 years later—with aging parents still working part time in the busi-

ness, with grown children showing no interest in the company and just starting their own careers, and with a supportive wife—Jason is restless. His job, though financially rewarding, lacks challenge. He built Burns & Son to its potential, and he has modest savings, but he yearns for the excitement of the track as a second career—in management, perhaps, or as a breeder—though his income likely would decline.

Jason wonders how to follow his own star and manage his lingering responsibility to his parents, who plan to retire soon, and his obligation to provide financial security for his wife and children.

Response 1

Avoid Desperation

Jason has come to a crossroads in his life, one that he has avoided for 25 years. He is unhappy, restless, and resentful about the way things have turned out. He feels it's his turn—not an unusual dilemma for someone at midlife who felt pressured into joining a family business he never truly enjoyed.

The midlife crisis occurs when people, usually between the ages of 45 and 55, take stock of their lives and find that they still have unfulfilled dreams in a life that contains too much emptiness or boredom.

Sometimes a sense of panic sets in, creating an urgency that can lead to ill-conceived or desperate solutions. Jason needs to think through his options and weigh his obligations carefully. He should not act impulsively.

Jason has three choices: stay in the business, sell the business, or develop a compromise plan that will enable him to do more of what he likes while honoring his family responsibilities. Each option involves trade-offs in which he will satisfy some people and disappoint others. He should avoid thinking in black-and-white, either/or terms.

As Jason considers the alternatives, he should try to be creative. Can he leverage his clothing expertise into who ride need special clothes, as do people who work with horses. Even the horses may need special clothes!

Perhaps Jason

could open a store catering to the horse-racing crowd and hire a manager to handle the day-to-day affairs in his parents' store. It would be more work for him in the short run, but he would not have to jettison everything he's worked for as he explores new ways to fulfill his dreams.



ILLUSTRATION: TROY THOMAS

Response 2

Two Options

Jason's dilemma—to be a caring son by staying with the declining family business or to be self-centered and pursue his own, independent career—must be tearing him apart. Is there a way he can be a loving son and still follow the path to independence?

To fulfill his dream, Jason has to leave Burns & Son Clothiers. But must the business close because he leaves? I see two options. It is difficult to sell a retail business that is no longer growing because of new competition, but it might be possible. There still is positive cash flow, and there might

be a buyer who is interested. Negotiations should include a requirement that the new owner continue to employ Jason's mother and father for a limited work schedule, which they need for their continued well-being.

A second path is for Jason to leave the business and, ideally, assign management responsibilities to a longtime key employee. But it may be necessary to hire an outsider. With the business still in the family, Jason's parents would not face an abrupt lifestyle change while Jason pursued his dream.

To be certain that the second plan works, Jason would have to monitor the company and keep its cash flow positive even though

the firm is in a state of decline. He must know when to pull the plug—close the doors and sell inventory—to preserve as much of the invested capital as possible.

In either case, Jason should end up fulfilled personally while feeling good as a caring son. Either choice permits his parents to continue their work and receive income as long as they are willing and able and the store is operating.



PHOTO: BITOM SOBOLUK—BLACK STAR

Mark I. Sirkin, a New York City-based psychologist and leader of the family-business practice of RHR International, a management consulting firm.



PHOTO: GREGORY TON

Mel Holson, a family-business counselor in Weston, Conn., and formerly CEO of The Holson Co., a photo-album manufacturer.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.

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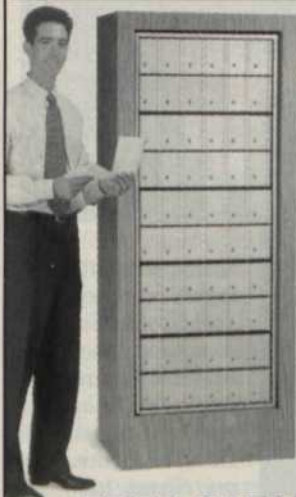
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Coloring Your World

By Dorothy Elizabeth Brooks

He didn't know it at the time, but Joel Goobich's career took a sharp turn the day he toured the elementary school where his elder daughter was about to begin kindergarten.

He was surprised by the drabness of the children's artwork on display. "I expected to see a lot of bright colors and creativity and things that would make a 5-, 6-, or 7-year-old feel comfortable and happy."

Deciding he could do better, Goobich, then the manager of chemical technology for a large chemical firm in Cleveland, began experimenting with paint colors in his basement, turning an old electric drill into a mixer. His two daughters liked the brighter, more vibrant colors Goobich created, and word spread fast among the children in the neighborhood. Parents began urging Goobich to try to sell his new paints to area schools.

Goobich dabbled with his sideline, selling the paints to a few local preschools until September 1991, when his employer announced that the company was moving to North Carolina. "That's when I thought, you know, maybe there is a business here," says Goobich. "I told the company I wasn't going, and I hung out a shingle."

With spare cash and a second mortgage that he and his wife, Bonnie, took out on their house, Goobich launched Colorations out of a home office. He began hawking his paints at a national school-supplies trade show the following spring. The vibrancy of his colors and their versatility—they can be used as sponge paint, brush paint, or finger paint—drew attention.

He also packaged his three-in-one paints in clear containers—a novel practice at the time—to showcase the lively colors.

As a result, Goobich reeled in \$10,000 in

orders—a significant achievement, considering the Crayola brand's dominance in the education market. Colorations became the first new paint company in the education arena in roughly 30 years, according

to commercial space in Duluth, Ga., in 1995, Colorations now hits not only the education market but also retailers such as Marshall's, The Nature Company, and T.J. Maxx. Colorations products are sold in every state and in Canada, Central America, and Asia. Competitors include Prang and Rich Art as well as Crayola.

Goobich, 42, continues to develop all the new colors and products himself. "I



PHOTOS: ©MARK ANDERSON

to the National School Supply and Equipment Association in Silver Spring, Md.

One of Goobich's first customers at the trade show was Nancy Korte, owner of a child-care center and a school-supply store in Warren, Mich. "They had a tiny little booth. And they had painted a leaf with this metallic paint, and it was absolutely breathtaking," says Korte.

Goobich racked up \$80,000 in sales in 1992, and revenues have climbed steadily every year since. Sales are expected to top \$1.5 million this year. Relocated to com-



Kindergarten artwork lacked vibrancy, so Joel Goobich looked somewhere over the rainbow for his paints, to the approval of daughters Dalit, 13, above left, and Sivan, 10.

need to be able to go on those spurts of creativity, which can last from a couple of hours to a couple of weeks or months," says Goobich, who holds a master's degree in applied chemistry. The summer of 1995 was a very creative time, he says. "I generated new materials that will last us all the way through the year

2000. I just can't roll them all out at once."

Traditional paint sets are the company's bread and butter, but Goobich produces related paint-based products as well. For example, Sun Dazzlers are used to create a stained-glass effect on virtually any surface. Face paints are also popular.

Besides handling all product development, Goobich serves as the company's chief salesman. An operations manager handles packaging and distribution, and Bonnie Goobich is the office manager. The paint

manufacturing is contracted out. There are six full-time and six part-time employees.

Goobich's success has not come without struggle, however. Two subcontractors went bankrupt at critical times, and he has weathered some staff turnover.

A key to his survival in the shadow of a dominant competitor, he says, is making sure that potential customers see or hear about his products in nontraditional ways rather than through direct sales calls. Once, for example, he showed his paints

while conducting an art seminar for about 300 kindergarten teachers, and they began asking for Colorations products at local school-supply stores, prompting a major supplier to begin carrying them.

"You've got to walk through the front door," says Goobich, "but most of your success comes from tapping on the side windows."

Dorothy Elizabeth Brooks is a free-lance writer in Marietta, Ga.

Banking On Help For Animals

By Carla Goodman

Patricia Kaufman is an expert at drawing blood. Not from people but from dogs, cats—even camels. Through her work, she has saved the lives of thousands of animals. She owns the Animal Blood Bank, a Dixon, Calif., firm that deals exclusively in dog blood and is one of the nation's few suppliers of dog blood to veterinarians.

"I'm the person who brings the kittens and puppies home," says Kaufman, 49, a former agricultural biologist. Unable to afford veterinary school, she studied agronomy and animal husbandry at California State Polytechnic University Pomona. "This business is something I can do to help animals without being a vet," she says.

In the early 1980s, after setting up a home business for supplying animal blood for medical purposes, Kaufman developed a system to draw, store, and separate the blood. She took blood from her sheep, chickens, cats, and rabbits, then sold the antibodies to research scientists.

Kaufman's expertise in drawing blood prompted a veterinarian to ask her to be his partner in starting a blood bank for animals in 1988. The veterinarian had lost a cat during surgery because he had no cat blood for a transfusion.

Selling veterinarians on the idea of buying blood wasn't easy. "No one had ever heard of a blood bank for animals," Kaufman recalls. Besides, few veterinarians gave blood transfusions. When they needed a unit or two for a simple procedure, they drew blood from animals kept at their clinics for that purpose. When the business was two years old and still in the red, Kaufman's partner abandoned the venture. Kaufman took a second mortgage on her home and decided to stick it out.

Her decision was fortuitous. Within several months, the National Institutes of Health, the federal biomedical-research agency, made its first grant to a veterinarian to research animal-transfusion medicine. Animal blood transfusions became a

hot topic at veterinary schools. More veterinarians started giving transfusions, and many turned to Kaufman for supplies.

"Pat's service is invaluable," says Dr. Rick Goullaud, head veterinarian at the

nels she owns outside Dixon. Each dog has been screened for health and blood type. For about five minutes every four weeks, a dog gives about one pint of blood.

Blood to be divided into plasma and red cells is placed in a centrifuge at Kaufman's laboratory for separating. The whole blood, plasma, and red cells are stored in plastic bags and sold to veterinarians for operations and transfusions.

Drawing dog blood has aroused ire from animal-rights activists. Kaufman notes that her dogs, many from animal-control shelters, "have been abandoned and oftentimes abused. At my kennels, dogs have a home for life."

Other dogs, too, have enjoyed longer, better lives because of Kaufman's work. She recalls a telephone call from a very nervous San Francisco veterinarian who needed blood for an operation on a dog belonging to the late renowned attorney Melvin Belli. "This operation can't go wrong. I need the blood now," he said. Kaufman's package, sent by courier, arrived in time.

Once, at a veterinary conference in Orlando, Fla., she showed the Sultan of Dubai's veterinarian how to set up a blood bank so he could treat several royal camels that had hemophilia and needed plasma.

For Kaufman, saving an animal's life is more rewarding than tending to the details of her business, which has eight employees and grosses \$500,000 a year. "I've never liked being an administrator," she says. "I started this business because I could have a lot of dogs." She not only has a lot of dogs, she says, but she gets to help other dogs "and be paid for it." **MB**

Carla Goodman is a free-lance writer in Sacramento, Calif.



PHOTO: © FRED MERTZ

Helping veterinarians help dogs is satisfying for Animal Blood Bank owner Patricia Kaufman, with Boston terrier Butch.

Metropolitan Veterinary Referral Service in Eden Prairie, Minn., near Minneapolis. He orders about 50 units each of whole blood, plasma, and red cells from Kaufman every year. "I can't think of any vendor we have that's as reliable and concerned about the quality of their service as she is."

Goullaud is one of many clients who pay Kaufman \$145 per unit—about a quarter of a pint—of dog blood. Kaufman's staff draws blood from 200 large dogs kept at three ken-

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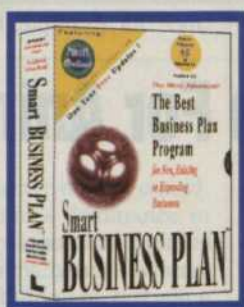


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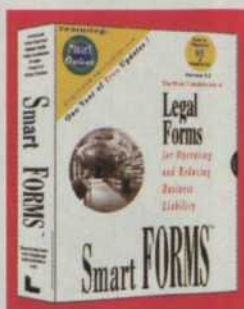


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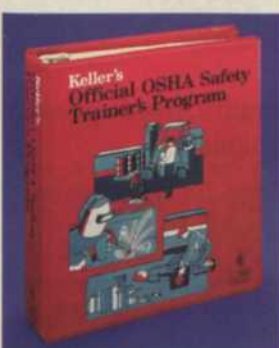


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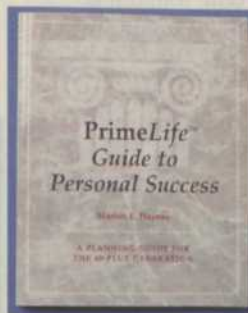
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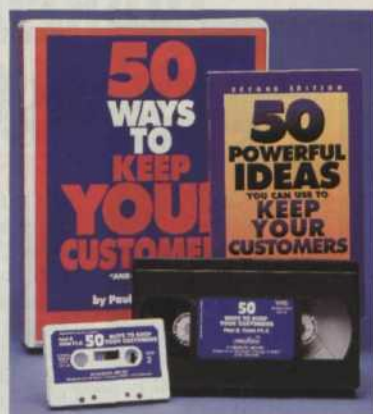
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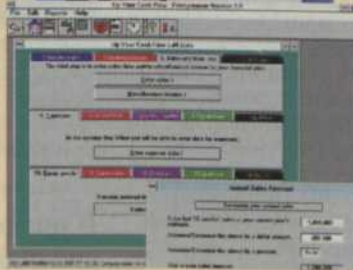
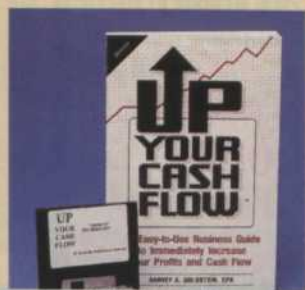
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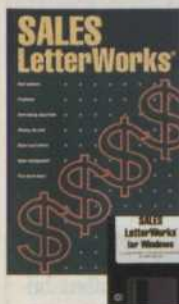
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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

GETTING STARTED

Opening The Door To Day Care

Problems finding good day care for my son have made me interested in starting a day-care facility of my own. It seems that more day-care centers are needed, given the number of young mothers who are entering the work force. Where do I begin?

A.F., Carpentersville, Ill.

Information and technical assistance on setting up and running day-care centers can be obtained from the National Child Care Association (NCCA), based in Conyers, Ga. It represents about 6,000 licensed commercial day-care facilities. It also offers members an insurance package for day-care operations. Membership costs \$30 a year. You can call the association at 1-800-543-7161.

Another source of information is the National Association for Family Child Care. It represents about 4,000 in-home, family-operated day-care facilities; membership is \$25 a year. The association, based in Des Moines, Iowa, can be reached at (515) 282-8192.

Day-care facilities are state-regulated, and there are no uniform national guidelines for staff training or program quality. Facilities wishing to demonstrate that they meet basic standards of professional practice can seek accreditation from various organizations, however.

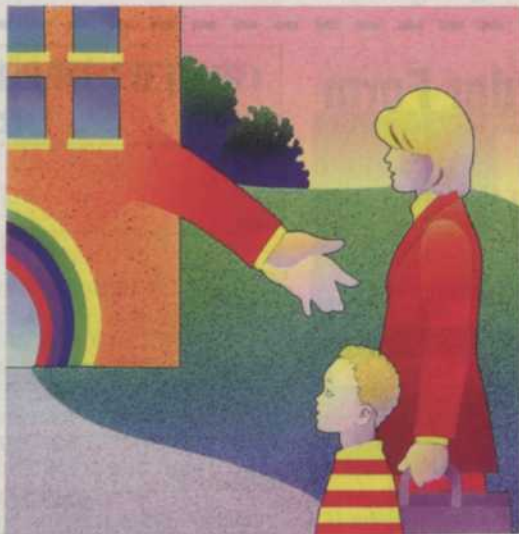
One accrediting group is the family-child-care association. Another is the National Association for Education of Young Children, which deals mainly with larger day-care operations and early-childhood programs; it is based in Washington, D.C., and can be reached at 1-800-424-2460.

Lynn White, executive director of the NCCA, says there are about 90,000 licensed child-care centers in the United States. Roughly half are for-profit operations, says White, and the rest are private nonprofit centers or public programs such as schools and Head Start centers.

According to some estimates, there are

at least 4 million children in licensed day-care centers throughout the country, and the industry generates up to \$9 billion a year in revenues.

Although in some states certain child-care facilities—typically smaller ones—are not required to be licensed, the family-child-care organization recommends that they voluntarily seek licensing because of the training required by the process. In addition, licensing can help a child-care facility become eligible for federal funding.



ILLUSTRATIONS: MARTHA VAUGHAN

While the number of children enrolled in day care is growing, the number of centers is either steady or declining because of consolidations; the economics of the business are forcing day-care centers either to be very small and expensive or to become fairly big, according to the NCCA's White. "Given the regulatory environment, the smaller [for-profit] centers cannot survive," she says.

The average licensed facility has 60 children, although White says "you are going to need more like 100 or 120 in order to break even or make money." An estimated 60 to 70 percent of a day-care center's expenses are for staff salaries. The average ratios of caregivers to children among licensed day-care centers range from 1-to-3 in some states to 1-to-7 in others.

Important factors in setting up a day-care center, White says, include location (a high-income area with young families is best), the level of local and state regulations, and

an educated labor pool (teachers often become involved in day-care operations).

Though there have been a few highly publicized accusations of child abuse in day-care centers, the far greater risk facing operators is litigation from accidents, White says. "You're more likely to see cases involving accidents or the unattended child."

Rolling Out Rental Cars

Where can I obtain the necessary information to open a car-rental business? What are the requirements?

N.O., China, Calif.

Try the American Car Rental Association in Washington, D.C.; (202) 682-4778. It represents about 2,000 U.S. companies that specialize in short-term car rentals. The organization also administers the Alliance of State Car and Truck Renting and Leasing Associations.

Feeding The Animals

I would like to open a feed store, stocking products such as hay, grains, and pet supplies. Where can I get information on this kind of business?

I.V., West Palm Beach, Fla.

The Agricultural Retailers Association in St. Louis represents more than 1,000 dealers, suppliers, and manufacturers of farm chemicals, feeds, and other products; call (314) 567-6655 for more information. Another source is the American Farm Bureau Federation in Park Ridge, Ill.; (847) 685-8600.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

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GETTING STARTED

Making Compact Discs That Entertain And Teach

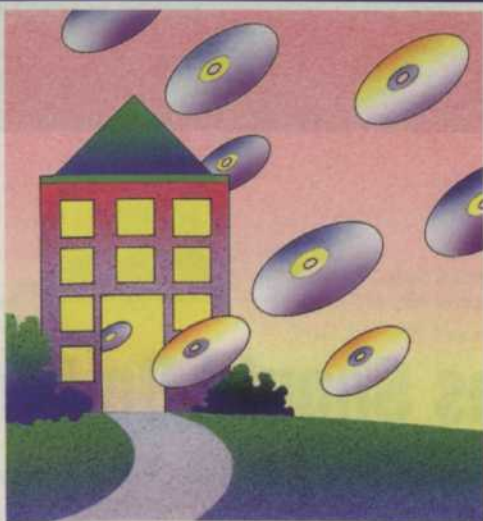
I would like to start a business making CD-ROMs for computer games and for scientific and general education purposes. Where can I find information about this kind of business?

N.W., New Albany, Ohio

To get an idea of just how big the compact-disc industry is, look at the music business. The Recording Industries Association of America says about 80 percent of the \$12.5 billion worth of recorded music produced in the United States last year was shipped as audio CDs. That's a lot of plastic.

Experts say the compact-disc industry consists of four major sectors: audio CDs; CD-ROMs (computer programs and games); interactive CDs (which use lots of video and are popular in training, marketing, and sales applications); and the new high-capacity digital video discs (DVDs) now coming on the market.

Aside from the DVD sector, all the systems use the same type of compact disc to store digital information. What differs from system to system is the way that each retrieves and uses information. CDs are generally produced by creating a glass "master"



disc, which is used to press the data onto large quantities of blank plastic discs.

A firm looking to start or expand in compact discs should contact organizations specializing in the type of CD the firm would produce. For instance, a company dealing in computer games and programs could contact the Software Publishers Association, based in Washington, D.C.; (202) 452-1600. The organization represents about 1,200 companies that produce the kind of data distributed on CD-ROMs.

A lot of educational programming, however, is produced on interactive CDs, which are made and used with machinery and techniques that differ from those required for CD-ROMs.

For information on this sector, contact the International Compact Disc Interactive Association, based in Solon, Ohio.; (216) 349-9661.

Organizations that may be able to offer information about music CDs include the Washington, D.C.-based Recording Industries Association of America (202-775-0101), which represents large music producers, and the Association for Independent Music in Whitesburg, Ky.; (606) 633-0946.

Easy As Pie

Where could I get information on opening a pizza shop or a restaurant with a limited menu focusing on pizza?

A.D., Ponte Vedra Beach, Fla.

For general information about the restaurant industry, call the National Restaurant Association in Washington, D.C.; (202) 331-5900.

For specific information about the pizza business, call the National Association of Pizza Operators in New Albany, Ind.; 1-800-489-8324.

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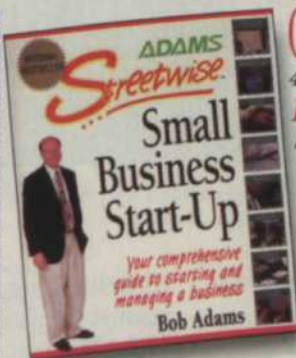
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Editorial

Clean-Air Rules Should Be Delayed

"The overall quality of our nation's air continues to improve," the Environmental Protection Agency said in a recent report on air-pollution trends. The EPA attributes the gains to "effective implementation of clean-air laws" and more-efficient anti-pollution technologies developed by U.S. industry.

Those laws include the Clean Air Act of 1970 and the substantially tougher requirements added to it in 1990.

Against the background of substantial improvement in air quality and the assurance of further gains under the 1990 amendments, whose full impact is yet to be felt, the EPA has called for further tightening of the standards on particulate matter (microscopic soot) and ozone, a significant component of smog.

The EPA has now set additional, far stricter standards that would reduce permissible levels of particulate matter by 75 percent and of ozone by 33 percent. Both are measured in parts per million per cubic meter of air.

The federal agency claims that the tougher controls, which it plans to implement over several years, will prevent 15,000 premature deaths, head off 350,000 cases of aggravated asthma, and spare a million children from decreased lung function.

But those assertions are highly debatable, and other concerns about the EPA proposals are sufficient to justify Congress' deferring their implementation.

Significant numbers of experts hold that the EPA is grossly overstating the health benefits and grossly underestimating the costs of achieving them. Even the EPA's own advisory council of scientists was divided over the standards. The U.S. Chamber of Commerce says: "EPA has claimed compelling evidence of health effects and large ratios of benefits to cost, and yet

these claims do not withstand informed scrutiny."

While the EPA has set the total cost of implementing the new standards at \$9.7 billion a year, other estimates put it many times higher. For example, the Reason Public Policy Institute, part of the Reason Foundation, a national research and educational organization based in Los Angeles, says the annual cost could reach \$150 billion.

One of the most challenged of the EPA assertions is

that the tighter controls will not have a significant economic impact on smaller firms, a claim that business experts reject as patently false.

The agency is going beyond a simple misstatement of fact, however. It is sidestepping legal requirements that it consider how small firms would be affected by new rules. "EPA has sacrificed America's small business to political expediency," said Robin Conrad, vice president of the National



Construction projects could be jeopardized by proposed clean-air rules.

Chamber Litigation Center, in announcing legal action against the new standards by the center, an affiliate of the U.S. Chamber.

Under the Clean Air Act, communities found to be out of compliance face penalties that include denial of federal highway-construction funds and sharp curbs, even prohibitions, on local projects such as factories, shopping centers, and even schools and hospitals.

Sen. James M. Inhofe, R-Okla., one of the sponsors of bills to delay and review the EPA rules, says that the bipartisan group of lawmakers wants "to make sure that we do not impose any hardships on the American people," including billions in additional regulatory expenses, "unless there is some scientific justification for it."

Even the EPA cannot fault the logic and fairness of that position.



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